Unemployment Insurance Review

January-February 1964

Yesterday's Laws . . . Today's Problems

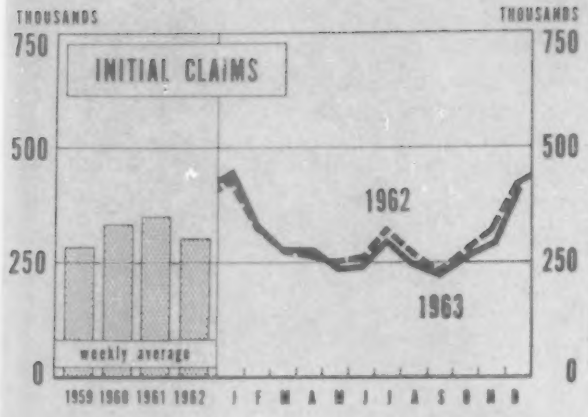
UNEMPLOYMENT INSURANCE FINANCING:

The National Viewpoint
As Industry Sees It
Labor Asks for Functional Financing
The States' Problem

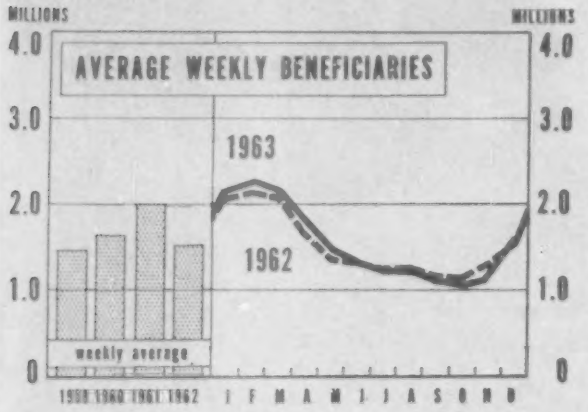
UNITED STATES DEPARTMENT OF LABOR MANPOWER ADMINISTRATION

UNEMPLOYMENT INSURANCE ACTIVITIES

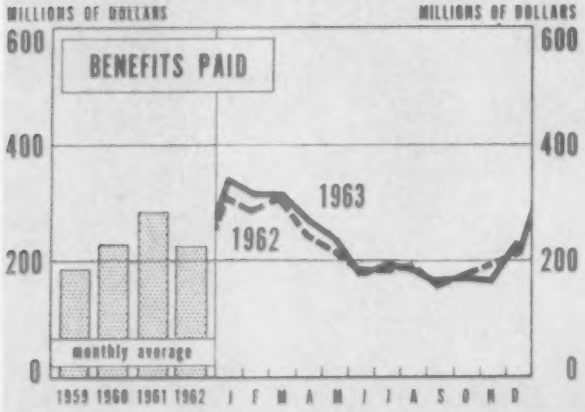
UNDER STATE PROGRAMS



Initial claims were at a weekly average of 414,500 in December, 42 percent above the November figure. The usual rise at this time of year is about 19 percent, but the more than seasonal rise this December followed an unusually low November volume.



Some $233 million was paid out in benefits to insured jobless workers under regular State unemployment insurance programs in December—an increase of about $68 million from November and $19 million over the year-ago figure.



A weekly average of 1.5 million beneficiaries received payments under State unemployment insurance programs in December, a 35-percent rise from November but about the same as the December 1962 average.

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U.S. DEPARTMENT OF LABOR
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The UIS Director Comments

TODAY unemployment insurance is accepted as one of the Nation's principal defenses against the effects of economic maladjustments which create unemployment and reduce consumer income. It is recognized as the only program which operates *automatically*, in direct relation to the volume of unemployment, to augment purchasing power whenever and wherever unemployment causes wage loss. Above all, unemployment insurance is recognized as more than just a fiscal device to help maintain the health of the economy; its fundamental purpose is to meet the needs of human beings whose income is interrupted because of lack of work. Through the meaningful achievement of this principal purpose, the program provides an effective contribution to economic stability. How well the program has achieved this purpose can be measured by the more than $3.5 billion paid in benefits under State programs in each of recession years 1958 and 1961.

Nevertheless, in a dynamic economy such as ours there are bound to be criticisms of the program. They come from employers who as taxpayers express concern about the cost of the program and whether certain classes of claimants should be compensated, from beneficiaries who frequently find the benefits inadequate, from administrators who find the system increasingly complex, from economists who feel the percentage of wage-loss replacement is too low to make the program an effective means for combating recessions, and from the general public who frequently question why so many persons are out of work and drawing benefits.

The widespread concern and interest in unemployment insurance are readily understandable in the face of the high level of unemployment and the large number of long-term unemployed. Certainly, the criticisms are not with the goals, the basic principles and purposes of unemployment insurance. These have not changed. It is the economy and the society in which the system operates which has and will continue to change.

Evidence of these changes abound. The country emerged from the 1954 recession with about 2½ million unemployed; the 1958 recession, with 3½ million; and the 1961 recession, with nearly 5 million. Unless economic growth increases sharply for the next several years, we shall continue to have a relatively high level of unemployment and a sizable group of long-term unemployed.

In addition, an exploding technology is creating thousands of new occupations unheard of when unemployment insurance began, while making thousands of other occupations obsolete. In adjusting to these changes, workers must acquire new skills and sometimes seek employment at distant locations. These developments create new challenges to the unemployment insurance system which must be met by program adjustments and continuous observance of performance in a constantly changing environment.

The *Unemployment Insurance Review* appears at an appropriate time to help fulfill this need. It establishes a forum from which to evaluate performance, to assess its strengths and weaknesses, to provide an exchange of ideas and experience, and to develop a common understanding of unemployment insurance among those administering the program, those interested in its performance, and students and researchers in social insurance.

Some of the criticisms of the program concern problems related to its financial structure. Yet, viewed in proper perspective, the costs of this program are relatively low in comparison with other costs of doing business, as shown by a United States Chamber of Commerce survey in 1961. This first issue of the *Unemployment Insurance Review* presents representative opinions on this problem.

Succeeding issues of the *Review* will cover other program areas such as organization and management of the program, adjudication, and research activity. Included also will be monthly activity reports, analyses of economic trends, highlights on the characteristics of the insured unemployed, and summaries of State UI statistics and related income maintenance programs. We believe the *UI Review* will broaden knowledge about unemployment insurance laws, their administration and effect.

Unemployment Insurance Financing

EDITOR'S NOTE.—*The following four articles are condensations of papers presented at the Annual Conference of the National Tax Association at Milwaukee, Wis., November 12, 1963. The articles give the views of representatives of industry, labor, and the national and State governments who participated in a panel discussion on aspects of financing unemployment insurance benefits. The views of the authors are not necessarily official opinions of the Bureau of Employment Security. The full text of the panel papers will appear in the Annual Proceedings of the Association.*

The National Viewpoint

*William U. Norwood, Jr.**

DEVELOPMENT of the taxing and financing provisions of the unemployment insurance program has posed complex questions that appear and reappear with fluctuations in the Nation's economy.

Program Costs and Financing

It is appropriate, therefore, to examine the factors that affect the costs and financing of the program. The system is self-financing. Its outgo or benefit costs over any appropriate period of time should be met by its income or taxes. The costs, in general, are based on two factors—the level of benefits provided by the law and the volume of compensated unemployment. The level of benefits provided by law, in turn, reflects two factors—the weekly benefit amount and duration. Our experience has shown that duration of benefits provided by a State's law has relatively little effect on costs. For many years, for example, although State laws have substantially extended the statutory or potential duration of benefits, the average experienced duration in nonrecession years has remained about the same. Even lumping recession and nonrecession years together, actual duration varies little. Between 1950 and 1962, the average duration per spell of unemployment varied only from 4.5 weeks to 6.8 weeks.

The other aspect of the benefit formula affecting costs is the level of benefits themselves. Despite the the wide variations in State benefit formulas, the weekly benefit amount below the maximum set by State law is designed to reflect the worker's regular weekly wage. Consequently, as the average worker's wage rose over the years, so did his benefits.

On the financing side, therefore, the taxing program adopted by the State had to envision two major cost factors—volume of unemployment and rising weekly benefit amounts. Note, however, that the tax rate in each State was originally designed to yield 2.7 percent of *all* covered wages.[1] As wage levels would rise, the dollar yield, of course, would rise also. Or, putting it another way, as wage levels would rise, both weekly benefit amounts and tax income would rise. One of the two factors involved in benefit costs—rising benefit levels—would be automatically accounted for by rising tax dollar income.

Soon after the program was in operation, however, a significant change took place that eventually adversely affected the entire financing picture. Instead of taxing all earnings in covered employment, the Federal law was changed to tax only the first $3,000 paid to a worker during a calendar year. This change was justified on the grounds that wage and tax reporting by employers would be less burdensome if the unemployment insurance taxable wage base were the same as under the Old-Age and Survivors Insurance Program. Further-

*Director of the Unemployment Insurance Service, Bureau of Employment Security.

[1] In 1938, the Federal tax was set at a uniform rate of 3.0 percent of *all* earnings in covered employment; employers were allowed to offset up to a maximum of 90 percent (or 2.7 percent) of the Federal tax the amount of taxes paid to a State under an approved State unemployment insurance law.

more, it was assumed that there would be an insignificant loss in tax income. This change, present day consequences of which could not be foreseen when it was made in 1939, has had a major impact on the financial structure of the program. Among other effects, it destroyed the self-compensating bond that had existed between tax income and rising wage levels.

Economic conditions in the formative years of the program also had a major impact—particularly a psychological one—on the financing of the program. Early estimates of costs were extremely conservative. The program was born during a major depression and actuaries, lacking sufficient unemployment experience data, based their estimates on the least favorable forecast of high-volume, long-duration unemployment. Events proved them wrong in two respects. Even before the full effect of the pre-World War II defense effort began to be felt, it was soon discovered that actual duration was not nearly as great as had been anticipated. But, the event that had by far the greatest effect in upsetting the actuaries' predictions was the Nation's war effort. Unemployment declined at an ever-increasing ratio—declined so far, in fact, that neither the Federal Government nor the States heeded the growing gap between rising wage levels and the taxable wage base. The impact of a rising economy began to affect legislative and administrative thinking in the unemployment insurance field.

Consequently, the problem was attacked from two sides. Built-in inadequacies in the program reflected the initial conservatism in costs—particularly with respect to the statutory limit on duration of benefits. Rising wage levels created another inadequacy—namely, the maximum benefit amount set by State law began to reflect an ever dwindling proportion of the higher-paid worker's regular wage. On the other side, it became blindingly clear that the tax yield far exceeded benefit costs and that benefit reserves were climbing to unnecessary heights.

In the era of economic growth that began before the war and extended through its close, the results were inevitable. Benefit levels were raised and taxes were reduced. But of even greater significance is the fact that these changes were made without actuarial studies; it was close to the war's end before even a thought was given to the fact that we had no well developed and tested method for making actuarial estimates.

Postwar Financial Problems

Reductions in tax rates, even below costs in good years, did no significant damage so long as reserve funds were available for the rainy day. The rainy days did come; frequently, and in downpours. Between 1949 and 1962, we had at least four recessions of rather severe proportions. After each recession, unemployment levels were higher than in preceding periods. Many factors contributed to the higher unemployment levels, including structural changes in State economies and technological changes and automation, all of which contributed to reduced demand for unskilled and semiskilled labor. These economic changes produced higher benefit cost levels, but State tax structures did not expand to cope with the higher costs. By the end of the last recession, reserve funds in nearly half the States were no longer adequate to permit continuation of taxes well below current cost levels. Moreover, unless there is a sharp increase in economic growth in the next several years we can expect a continuation of relatively high levels of, and longer lasting, unemployment.

Causes of Financial Problems

Looking back on the developmental stages of the program, several factors stand out as contributors to current financial problems. They are all reflected in the inadequate tax structures that exist in many States. The inadequacies can be traced partially to the much greater emphasis on the individual employer's tax rate, rather than on the overall needs of the program. These inadequacies are aggravated by the hesitancy of State legislatures to enact timely and adequate remedial legislation. But more important than these factors, however, are the inadequacies of tax structures resulting from unrealistic limitations on the taxable wage base and the maximum tax rate. These are structural defects which prevent a tax structure from expanding with the ever increasing costs.

The Tax Base and Tax Rate

There have been many differing opinions about the impact of each of these limitations on the tax structure and on benefit financing. Some claim that if the maximum rate is increased there is no need for an increased tax base; in fact, these advo-

cates claim a tax base increase is undesirable. Others claim that the unrealistic limitation on the taxable wage base is primarily responsible for current financial problems. Both viewpoints should be examined.

First, the point should be made that while in the OASDI program the tax base is geared to the statutory benefit levels, there is no such relationship between taxable wages and benefits in unemployment insurance. As noted earlier, changes in benefit costs are much more closely correlated to changes in total earnings than to changes in any limited proportion of those earnings. Since the ceiling of weekly benefits reflects rising average wages, benefit costs tend to maintain a fairly steady ratio to total wages. At the same time, since the taxable wage base is a flat dollar amount, rapidly increasing earnings mean that benefit costs represent an ever increasing percentage of taxable wages. Moreover, since total earnings increase at a faster rate than do taxable earnings, the cost rate in terms of taxable wages has increased faster than has the tax yield.

There is another way of viewing the extremely limited tax base. If employers are expected to bear the burden of their own costs to the same extent as in the initial stages of the program, tax rates on a $3,000 base would have to be continually increased—perhaps to as high as 10 percent or even 20 percent by the end of the next decade.

Such an approach is about as unrealistic as if a county or municipality attempted to meet its increased needs for revenue by constantly increasing the millage rates while holding property assessments at 1939 levels. There may be nothing wrong with the arithmetic of that method, but it leaves a great deal to be desired from the standpoint of equity and acceptance. Obviously, there is a practical limit as to how far one can go by changing the tax rate alone.

Similarly, in unemployment insurance there is a limit to how high the maximum tax rates will be permitted to go. To the extent that any such limit causes high-wage employers with fluctuating employment to pay less than their proportionate share of benefit costs, these costs must be passed along to other employers. Usually this means that minimum tax rates must be increased. While there are other considerations which make a realistic minimum tax rate desirable, it should not be forced upward merely as the inevitable result of an unwillingness to increase the taxable wage base and an inability to set the maximum tax rate at a sufficiently high level.

Notwithstanding the difficulties and problems inherent in doing so, 14 States have taken action to increase the taxable wage base above $3,000. In these States it ranges from $3,300 to $7,200 ($3,300, 1 State; $3,600, 9 States; $3,800, 2 States; $4,200, 1 State; and $7,200, 1 State). Other States have considered this step, and many are also reviewing their tax structures with the view of modifying the tax rates and tax schedules.

This raises another point that many are keenly sensitive to—the variety and complexity of unemployment insurance tax laws. The rise in the tax base, as laudable as it may be, results in only one more example of the great variation in unemployment insurance tax programs among the States. Just how much variation that now exists may be seen from the following examples: State maximum tax rates vary from 2.7 to 7.2 percent with 33 State laws providing rates above 2.7 percent. State minimum tax rates vary from 0 to 1.5 percent with 13 State laws providing for zero rates. We have already seen that the taxable wage base varies from $3,000 to $7,200.

The adequacy of State reserves varies widely. Nine States have funds large enough to pay benefits for more than 3 years at the highest annual rate experienced during the past 10 years. On the other hand, there are six States whose reserves could not finance a single year's cost of benefits at such a level. There are three States which have borrowed money from the Federal loan fund and employers in these States are now faced with the necessity of paying an extra 0.15 percent tax for 1963. Additional confusion is caused by provisions relating to the Federal tax. For instance, the permanent or normal Federal tax is now 0.4 percent on the first $3,000 of wages, as against 0.3 percent of total wages at the beginning. Furthermore, there is a temporary tax of 0.25 percent on 1963 payrolls for the purpose of restoring to the U.S. Treasury the money used for paying TEUC benefits to eligible unemployed persons in 1961 and 1962. Employers in nine States will have an extra 0.15 percent to pay in order to restore money advanced for the payment of TUC benefits in 1958 and 1959.

The subject of varying taxes is extremely complex. For example, if you were an employer having some employment in each State plus the Dis-

trict of Columbia and Puerto Rico, you would find that there would be four different tax rates applicable to the Federal portion of your taxes. On the State side, you would find 6 different taxable wage bases, 18 different maximum tax rates, and 13 different minimum tax rates. In addition, in three States you would be responsible for deducting from employees' wages their contributions to the unemployment insurance system.

Other provisions of the several State unemployment insurance laws vary as widely as do the taxing provisions. There are differences in the size of firm subject to the act, in the length of time a person must have worked in order to be eligible for benefits, and in the amount and duration of benefits.

If you have been wondering whatever happened to the simple proposition of a uniform Federal tax with a 90-percent offset credit allowance for State taxes, you are not alone. No one could have conceived that we would arrive at the place we now find ourselves. However, it does seem that the time has arrived, if it is not overdue, to make some basic changes in the taxing provisions. A number of administration proposals over the past several years have been made to raise the taxable wage base. The most recent would set the base at $5,200, and would establish an equalization fund to provide a broader sharing of the risks of unemployment among the States.

To these items might be added a provision for a minimum tax rate and greater freedom on the part of States to set employer tax rates. These provisions, the Bureau believes, would have several desirable effects. The equalization feature would limit the costs the employers in each State would have to bear; raising the wage base and applying a minimum tax rate would permit the States to establish more equitable tax schedules while deriving more funds to bolster inadequate reserves; and it could be expected that giving States greater freedom in devising experience-rating systems would help in the development of systems that are anticyclical in nature and more sensitive to the needs of the economy.

In confining these remarks to the taxing and financing aspects of the unemployment insurance program, there may have been a failure to convey fully the feeling that the program, despite its complications and limitations, has performed its function well and deserves acceptance as a part of the American scene.

As Industry Sees It

*Russell L. Hibbard**

SOLVENCY of their State unemployment fund is generally accepted by employers as an obligation. In recent years, in fact, employers in several States have taken the initiative in formulating and supporting measures to increase unemployment taxes and thereby restore fund solvency. While employers recognize their responsibility for solvency of their State unemployment funds, they also regard the accumulation of unnecessarily large fund balances as detrimental, in several respects.

A search for an absolute and infallible fund solvency criterion would be doomed to perpetual frustration. The hazard involved is too unpredictable and too little susceptible to actuarial projection. Judgment rather than a magic formula is, and probably always will be, the dominant factor in deciding how big a fund should be to be "safe."

State Financing Policies

The size of the contingency reserve to be maintained in the unemployment fund is only one facet to the solvency of the State system. Other facets of equal import are the revenue-producing capacity of the tax structure and the rapidity with which the tax structure responds to changes in the balance of the unemployment fund. All three factors should be taken into account in deciding financing policy, for a small fund balance may be adequate where there is a high revenue-producing capacity and quick response, but inadequate where the peak revenue capacity is low or the response of the tax formula to changing expenditure levels is slow or inadequate.

Thus, a choice each State has to make is whether to assure solvency by maintaining a big fund with relatively low revenue capacity, or to do it with a comparatively small fund but with ample capacity built into the tax structure. Each approach has its good and bad points.

*Director, Unemployment and Workmen's Compensation, General Motors Corporation.

The large-fund, small-capacity approach is conducive to a narrow range of fluctuation in tax rates from year to year. It is also adaptable to tax-setting formulas which tend to raise tax rates in good times and lower tax rates in bad times. On the other hand, this approach is likely to tie up a great deal of money that employers could use advantageously in their businesses. A big fund also invites unwise increases in benefits, because of lack of public understanding that a big fund balance is needed to assure benefit payments and is not a surplus to be distributed.

The small-fund, large-capacity approach is not so likely to create a false sense of security leading to unsound expenditures, and it takes less money out of normal business channels. However, tax rates under this approach necessarily fluctuate widely from year to year. This can cause undesirable fluctuations in employer costs and can sometimes result in the highest taxes being assessed when business is at its worst.

A good example of the uncertainties in projecting unemployment compensation costs and in choosing reserve and tax policies is to be seen in the change in the duration of a complete business cycle that has occurred in the last 35 years.

A high-reserve, low-capacity system was well suited to a 7-to-9 year business cycle such as we use to have. With a long, slow cycle, there was ample time to replenish reserves, even at relatively low rates, before the next period of heavy benefit expenditures. However, with a 3-to-4 year cycle, such as seems to characterize the economy since World War II, sound financing appears to demand much more emphasis on revenue capacity—and less on a large fund balance—then was originally contemplated.

Employers generally would favor the low-fund, high-capacity philosophy of financing at this time, I believe, even though it might entail some undesirable side effects in terms of wide and somewhat unpredictable fluctuations of tax costs.

Experience Rating

One of the reasons why informed employers and their organizations have occasionally taken a position of leadership in regard to strengthening the tax structure of State unemployment insurance laws has been employers' concern that shaky fund solvency imperils the principle of experience rating in unemployment compensation. This undesirable impact is usually felt long before benefit payments to individual claimants are seriously jeopardized.

Experience rating of unemployment tax rates is a constructive force in unemployment insurance that should not be permitted to wither away. Under effective systems of experience rating, employers' unemployment tax costs are determined by the benefits paid to their employees. Thus, to the extent that employers can and do help to conserve the unemployment fund by stabilizing employment and cooperating in the enforcement of the law's eligibility rules, they can control their unemployment tax costs. In other words, experience rating in unemployment compensation makes the unemployment insurance tax a variable cost of production, subject in many instances to a substantial degree of management control.

With effective experience rating, the possibility of unemployment insurance tax savings provides the financial justification for employers to invest time and money in plans and practices which increase their stability of employment and which help the law's administrators to enforce the eligibility rules laid down by the legislature. Without experience rating, or with ineffective experience rating, negative incentives exist. In such cases, the only way to reduce unemployment tax burdens is to reduce taxable payrolls by laying off people. Moreover, such a deficiency could have the socially undesirable effect of tempting the employer to try to "get his money's worth" in the form of benefit payments to employees whose legal right to receive benefits is debatable or even nonexistent.

Tax Rate Schedules

Most State laws contain alternative schedules of unemployment insurance tax rates which are tied to the condition of the State unemployment insurance fund. A change of schedule occurs when it is necessary to increase or decrease the average of the tax rates of all employers in the State more rapidly than would automatically result from changes in their individual unemployment experience. Under these alternative tax schedules, as the fund balance declines, the maximum tax rate which may be assessed commonly remains static, while the minimum tax rate increases to progressively higher levels. This narrowing of the available range of tax rates is undesirable, for it limits the operation of experience rating to a smaller and smaller fraction of the total group of employers

covered by the law. Employers who are subject to the minimum or the maximum tax rates are in a position where fluctuations in the amount of benefits paid to their employees are not likely to affect their tax costs. As the number of employers subject to the minimum or maximum tax rates increases, the intended effectivness of experience rating as a cost-controlling element declines.

This phenomenon, of dwindling scope within which experience rating must operate, is not limited to States whose funds are generally thought to be in relatively critical financial condition. The problem exists also in serious proportions in other States where adequate revenues have been maintained, but only through restriction of the scope of effective operation of experience rating.

If experience rating of unemployment taxes is to realize its potential for public good as a feature of unemployment insurance laws, the maximum tax rates should be increased; and those minimums which have been increased to maintain or restore the balances of the State funds should be reduced.

There is a strong demand to increase the prevailing $3,000 ceiling on the wages per employee per year that are subject to unemployment insurance taxes. This way of increasing fund revenue cannot restore the necessary scope of experience rating, because it tends to narrow further, rather than widen, the range between minimum and maximum tax rates. The employer whose employees receive pay for 52 weeks per year will tend to have a greater percentage increase in his taxable payroll as a result of an increase in the wage base ceiling than an employer whose employees average substantially fewer weeks of work per year. Consequently, increasing the tax base results in a bigger percentage increase in tax liability for stable employers paying the minimum rate than for unstable employers paying the maximum rate.

Because increasing the tax base does not restore the needed effectiveness of the experience rating formula, the State should not place sole reliance on a wage-base increase to augment its unemployment tax revenue. If the wage base should be increased, the maximum tax rate should also be raised and the minimum tax rate lowered.

Extended Benefits

Among the many implications of extended benefits are two major ones: First, the appropriateness of the unemployment insurance mechanism as a medium for providing income maintenance for the long-term unemployed and, second, the propriety of financing extended duration benefits entirely by payroll taxes levied on employers.

If one is realistic, one has to concede that the idea of paying extended unemployment insurance benefits—at least during periods of general business recession—has gained considerable headway and public acceptance, as the result of statutory precedents set by Congressional enactment of temporary extended unemployment benefit laws in the recessions of 1958 and 1961. Concurrently, there has been a significant number of States which have provided for more than 26 weeks of unemployment benefits—at all times or during periods of heavy unemployment only. In view of these precedents, it seems very probable that State and Federal legislative bodies would be disposed to retrace this route whenever unusually large numbers of workers are unemployed long enough to exhaust their benefit entitlement under the applicable State laws.

While employers generally would agree without hesitation that people who have been involuntarily unemployed for a long time should never be permitted to suffer privation for lack of some form of support, there is a very acute question (which employers share, incidentally, with some keen students and advocates of unemployment insurance) as to whether the unemployment insurance system is a good mechanism to use to meet this need.

Duration of Benefits

Unemployment insurance in principle is intended for, and adaptable to, short-term, transitional unemployment. It is intended to provide support for the worker and his family while he is seeking suitable work, thus enabling him to resist economic pressure to downgrade himself unnecessarily in terms of earnings, skills, or working conditions during that transitional period.

With this objective in mind, it is natural that the concept of "suitable work" that has emerged under State unemployment insurance laws has been rather narrow. Although many States follow the idea that more kinds of work should be considered "suitable" as the individual's unemployment continues, there is not sufficient flexibility in the concept to assure that the long-term unemployed will make needed and realistic adjustments to a labor

market in which they have actively sought work for more than 6 months without success.

Unemployment insurance admits to benefit entitlement a great many people who have had only limited recent attachment to the labor market. Many customarily seasonal workers qualify for benefits during the normal slack seasons in their employment. Many people who work only to supplement the family income, and who find it very expensive to work, are paid benefits under the unemployment insurance laws when laid off, only because the test of eligibility is the claimant's subjective desire to work which, in most cases, can only be evidenced by the claimant's own statements.

As one of the prominent academic writers on unemployment insurance said in 1962, referring to this type of problem, "a limit on duration must be seen as putting a limit to the risk run by society as a whole." This writer feared that restrictive provisions that would be adopted to prevent such abuse of extended duration benefits would also be made applicable to the normal benefits.

In addition to questioning the soundness of seizing upon the unemployment insurance mechanism—just because it exists and is convenient—to provide income maintenance for the long-term unemployed, employers generally would strenuously object to being made to bear the whole cost of extended duration benefits.

Employers do not now feel that it is unreasonable or illogical for the unemployment insurance laws to make them solely responsible, individually and as a class, for providing partial wage loss replacement during the period it normally takes a laid-off worker to canvass his labor market for a suitable job. Employers recognize that unemployment during such a normal canvassing period is fairly attributable to their failure to provide continuous employment.

However, it seems to employers that 6 months of active job seeking is enough to canvass fully the job possibilities in any labor market. It follows that unemployment lasting more than 26 weeks is not the normal and logical consequence of a layoff but is due either to general economic conditions or to unduly restricted availability for work on the part of the employee. Therefore, employers generally feel that they should not be singled out to bear the entire burden of support for the long-duration unemployed, but that the cost should be borne by the public generally.

Recognizing that it is easy to use the unemployment insurance mechanism to pay money to the long-term unemployed, and that precedents exist for so doing, it is of great importance at this time—when there is no necessity of immediate action—to devise a program that has concepts and provisions to do a job which will best meet the public interest. Some work has been done toward the development of a thought-through, permanent program to provide benefits or allowances for the long-term unemployed.

New Financing Concepts

A bill introduced in the first session of the 88th Congress would increase sharply the rate of the net Federal unemployment tax and use the proceeds in part to finance a single national system of unemployment compensation which would add 26 weeks of Federal unemployment benefit entitlement to whatever weeks of benefits were available to each unemployed worker under the applicable State law, subject to a combined limit of 52 weeks of entitlement.

Enactment of this program, if it should occur, would obliterate the interstate differences in the tax cost of extended benefits that would exist if extended benefits were enacted at the State level. One of the main arguments advanced for this proposed enactment of a broad-coverage Federal unemployment insurance law is that extended duration unemployment arises out of causes which transcend State lines, so that the cost should be spread uniformly over the whole country.

Aside from opposing the entry of the Federal Government into the operation of a broad-coverage unemployment insurance program, employers will be quick to point out that, if long-term unemployment transcends State lines it also transcends the individual employer and employers generally as an economic group. Putting the burden of extended benefits uniformly on all the employers in the country fails completely to recognize that employers have discharged their special responsibility by providing income maintenance during the first part of the period of unemployment. Moreover, inasmuch as the proposed Federal law would use existing unemployment insurance concepts of suitable work and the like, it does not face up to the practical problems of adapting the eligibility rules realistically to the situation in which the program will apply.

The State employment security administrators, too, have evolved a plan. It would be a joint Federal-State program financed by State money and matching Federal grants. This has the advantage of permitting the States substantial latitude to adapt their extended benefits program to their own conditions, and would also permit general revenue rather than payroll tax financing. However, this plan too would absorb the extended benefits into the basic unemployment insurance program, with the actual and potential disadvantages that absorption entails.

These efforts to work out a fresh approach to the problem that has been met in the past by hurried legislation are worthwhile although only partially successful. It is to be hoped that further efforts will be made to improve on these suggestions.

Labor Asks for Functional Financing

*Raymond Munts**

THE policy questions in unemployment insurance require more attention to what I propose to call "functional financing." This concept embodies four important ideas: (1) it focuses on the wage insurance features of the program and the provision of funds for that purpose; (2) it provides the flexibility and adaptability needed as employment and wage levels change; (3) it suggests the provisions needed to safeguard against the ups and downs of business cycles; and (4) it proposes a system that can operate without the need for frequent legislative amendment.

Since World War II, tax contributions have been consistently lower than required to maintain reserves. The accumulated reserves which resulted from abnormally low unemployment during the war produced a general lack of interest in sound long-term financing. Experience rating was adopted in this climate and has efficiently pared away the reserves. Many States pursued a policy of underfinancing as part of an industrial development program. Experience rating operated most effectively for this purpose. Employment security agencies failed to do a proper job of educating employers, labor, and the public in the principles of sound financing.

It is not wrong, of course, to reduce excessive reserves, but by now many States have reached the end of this road. Some 23 States have reserves at less than one and one-half times payments in any recent high-cost year. Six of these have reserves insufficient to pay benefits under recession conditions.

State Legislation in 1963

The 1963 legislative record showed the symptoms of this induced financial squeeze. In Ohio and Wyoming there were major overhauls of the benefit structure. Even though unemployment persisted between 5 and 6 percent, 12 States curtailed part of their benefit structure regardless of existing shortcomings.

There were some increases in maximum benefit amounts in 1963, but they were mostly "catch-up" amendments restoring the relationship of the maximum to wages that existed 2, 4, or 6 years ago. They did not even come close to ratios that existed when the program began. The significant thing is that this is the first time in the history of jobless payments that the maximum benefit has actually been reduced by any State (Wyoming) or that the maximum duration has been reduced (Colorado).

In Ohio and Wyoming, where fund levels have also been of major concern, the benefits of workers who go across State lines to look for jobs were reduced to levels lower than if they had stayed in the State. This is completely contrary to the objective of encouraging the claimant to search for work.

After the 1963 legislative changes, the ratios of maximum weekly benefit amounts to average wage levels compare as follows with 1939:

Maximum weekly benefit amount as percentage of average weekly wages	*Number of States*	
	1939	*1963*
Over 70 percent	16	0
60 to 69 percent	16	1
50 to 59 percent	17	11
40 to 49 percent	2	25
Under 40 percent	0	14

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This smaller compensation of wage loss is one way the program has been tailored to fit reduced revenue. Another is that penalties have been multiplied in number and severity. Benefit duration increases have not provided for the longer duration of technological unemployment, nor has their cost offset the effect of the smaller proportion of wage loss which is now compensated.

Counting all limitations—in coverage, duration, compensation rate, disqualifications, and eligibility—we find that in 1963, by conservative estimates, workers lost $16.8 billion in wages and salaries due to unemployment; they were compensated for $2.9 billion—not much of a record for a program that has been called our first line of defense against depression.

Problems and Issues

State legislatures have been less interested in the amount of uncompensated wage loss than in permutations of the experience rating system. This is the net effect of employer influence on public policy, even though employers have conflicting interests in many financing issues.

The tax base issue is a good example. To maintain the same distribution of the tax on various employers as was originally intended, the tax base obviously would have to be raised, as wages have risen. But big manufacturing concerns with fluctuating employment volumes and relatively higher wage levels want to keep the base down; they find it cheaper to pay higher taxes so long as they do so on only a fraction of their payrolls. Actually, retailers, merchants, and the service industries—where wages are relatively lower and fully subject to the tax—should favor a tax base increase. So should banks, insurance companies, and wholesalers with relatively stable employment and consequently low tax rates; their rates would simply fall lower if the taxable base were raised. The net result of public preoccupation with who can pay least in taxes is that the unemployed are having to pay more in wage loss.

An inversion of purposes has colored policy making. For instance, the benefit provisions of State laws have sometimes been determined by the financial provisions, instead of the other way around. There are still cases where only taxable earnings are counted for eligibility for benefits. Two or three States still set the maximum benefit level according to the amount of annual earnings counted for tax purposes. A fixed low tax base thus prevents liberalization of the maximum benefit amount. Fortunately these structural anachronisms are disappearing, but there is no decline in subordination of benefit policy by State legislatures.

Studies of the unemployed and how they have lived, or rather tried to exist, on their jobless benefits have been made in a number of States, including Florida, Missouri, New York, Oregon, Pennsylvania, and South Carolina. Despite the objective evidence given in these studies of the need for adequate benefits, the prevailing concern is still with the impact of benefit financing on employers.

The basic question we have to ask is, "Do we want a good unemployment insurance program?" We may differ about what "good" means, but, after allowing for differing definitions, if the answer is a positive one, then obviously the next step is how to finance it. It follows logically that the tax system and method of financing should be designed to produce the necessary yield. Only with this clarification of purposes can we get to the persistent questions.

One of these persistent problems occurs in States where jobless pay is regarded as a "two dollar" law. Every few years the maximum is raised $2. These adjustments usually lag behind wage changes, but the point here is that, as a result of successive revisions, the financing provisions become outdated. Reserve levels are suitable to earlier levels of dollar payments, not current ones.

An interesting development in unemployment insurance is the system of automatic adjustment for the maximum weekly benefit amount. In 11 States now, the law will set the maximum as a percentage of the average weekly wage in the State. Every year or 6 months, by administrative determination, the maximum is adjusted as new data become available on wage levels. This does not change the basic concept in the State law—that individual benefits are figured at half or more of the individual's weekly wage. But it does insure that claimants who earn up to the State's average wage will be compensated for half or more of their weekly wage loss, despite fluctuations in the general wage levels. Under such an arrangement, benefit liabilities in dollar terms will change as wages change, although they will remain constant relative to the wages which those benefits are designed to compensate.

Functional Financing

Obviously, financing of the program must take account of the way benefits are adjusted to wage changes, whether by automatic methods or periodic legislative amendment. A social insurance program has special problems in performing its functions because of changes in the economic environment in which it operates and to which it must be responsive—particularly changing levels of employment and wages—both in a cyclical and long-run basis. A system of functional financing must deal with some of the knottiest of economic problems and handle them smoothly without the need for periodic legislative overhauling. The approach must be sufficiently generalized so that it need not be tied to a specific level of benefit payments; it must be useful for different States with different benefit and wage levels, and must be useful over time as things change.

The first characteristic of functional financing is that it should operate with neither excessive nor insufficient reserves. Postwar reserves were ridiculously high, and some half dozen States now have reserves dangerously low. If reserve levels have a little play between extremes, the adjustments in tax rates do not have to be so sudden or so drastic as they would be if the range of levels were too narrow. As reserves go up and down within the specified range, they will trigger different tax-rate schedules. These tax rates can be calculated in such a way that they will produce a yield (average rate times taxable payroll) equal to the benefit cost rate, plus or minus an amount that will adjust the fund up or down toward the midpoint in the reserve operating range. When the fund level is at the central position, the yield from the tax rates exactly equals the benefit cost rate of the program. When the reserve level moves off center again, new tax schedules with a predictable and restorative yield will be activated, just as a gyroscope acts to counterbalance the forces of motion.

This approach will work equally well with experience rating on an individual employer basis or with flat rate adjustments in which all employers pay the same rate. We have not had experience with flat rate adjustments because Federal law requires that lower rates are allowed only on the basis of individual company experience with unemployment. Some States might experiment with flat rate tax variations if given an opportunity. But this question is irrelevant to functional financing because either experience rated schedules or variable flat rates would work equally well as long as they are calculated in a way to give the required yield plus the fund adjustment.

The second requirement of functional financing is that the various reserve levels at which the different tax rates are triggered should be expressed in terms that will hold good even if covered employment increases or decreases, and even if payrolls and wages rise or fall. Obviously, the key reserve levels cannot be expressed in dollar terms because if program liabilities double over a number of years the same dollar reserve is only half good enough. A reserve level is an index of protection and must bear a relationship to the liabilities.

Even the common practice of expressing reserve levels as a percentage of the taxable wage base is misleading, because an increase in liabilities of the program due to rising wage levels will not be mirrored properly in the reserve adjustment. If wages increase over time, so will the dollar liabilities of a wage-related benefit structure, and so must the operating reserve range. The solution lies in expressing reserve levels and the operating range as percentages of total payrolls. In this way the volume of covered employment can go up and down and so can wages (and benefits), but the reserves which trigger different tax rates will always be at levels appropriate to the fund's obligations.

It should be noted here that reserve levels can be expressed as a ratio to total payrolls regardless of what the taxable wage base actually is. Several States have done this and it is best this way because the purpose of the reserve level ratio is to reflect liabilities just as a thermostat reflects heat changes. Under a fixed tax base, the ratio of reserves to *taxable* payroll is not the sensitive instrument needed.

So far, then, we have: (a) a realistic reserve operating range that is neither excessively high nor dangerously low; (b) reserve levels expressed as ratios to the State's total payrolls for the purpose of triggering (c) tax schedules with predetermined yields that stabilize the fund toward the midpoint of the operating range. These are the main ingredients of a program whose solvency is reliable over long periods of time.

A superior system, however, must go further. We have noted that at a given reserve level the tax rates must produce a yield equal to the bene-

fit cost rate. If total benefits move up (in dollar terms) because of rising wage levels, the same tax rates on a fixed base simply cannot give the desired result. With the long-run movement toward higher wages, either the tax rates or the wage base must increase in time. Something is needed to keep the mechanism automatic. The most natural adjustment that keeps all the parts in proper relationship is to have the taxable wage base move as wage levels move. If we return to the original arrangement that prevailed before 1939 and make the tax base equal to total payrolls, the problem is solved. There is no need for periodic adjustments in rates even if the benefit structure is liberalized to keep it abreast of wage changes. This would be the easiest and most appropriate way to do it in view of the origins and original intent of the program.

Lastly, for a system of functional financing to work, there must be some kind of limit on liability, and the main problem here is with benefit duration. There is no problem with increasing benefit liability due to rising wage rates because our flexible base provides the necessary financing. But what about the variation in total payments that might come with increased duration?

A necessary feature of the ideal financing arrangement is that there be a terminal limit on the amount of benefit duration for which State financing is responsible. This seems consistent with the idea that the economy of a State cannot be said to be the cause of long-term unemployment in that State. Widespread shifts in technology and in national markets are playing the most important role in the increasing number of long-term unemployed. It is appropriate to remove from a State's responsibility the financing of all benefits for those unemployed beyond 6 or 9 months. This establishes a watershed between State and federally financed benefits. An equalization or reinsurance program will also help to delimit the State's liabilities and provide a completely enclosed and manageable area in which State financing can work smoothly and dependably.

There is really nothing new in any of the proposals set forth here. All are workable; some are operating in a few States. All have been seriously proposed by social insurance students at one time or another. With these principles in operation, an adequate system of unemployment compensation can be financed well within the limits of 3 percent of payroll as originally established. There is certainly no better time, given the lessons of the 1963 State legislative experience, to search out the best advice and put at least some of it into practice.

The States' Problem

*J. R. Cohen**

ALL State unemployment insurance laws provide for the accumulation and maintenance of reserves as part of their systems for the financing of benefit payments.

Adequacy of reserves was no problem in the early years of the program. Because tax rates in the 1939–1945 period had averaged in excess of 2 percent of total payroll and the payment of benefits during the war had been negligible, the States had accumulated reserves by the end of 1945 amounting to almost $7 billion, or over 10 percent of that year's total wages of persons covered by unemployment compensation. We relate reserves to *total* payroll because total payroll rather than *taxable* payroll is a measure of potential liability of unemployment compensation reserves. By 1953, although the dollar amount of reserves had risen to almost $9 billion, they amounted to only about 6½ percent of that year's total wages. By the end of 1962, reserves had shrunk to a little over $6 billion, or about 3 percent of total wages.

Appraising the Status of Reserves

Has this shrinkage in reserves endangered the solvency of individual State funds? To evaluate the status of individual State reserves requires the establishment of a criterion which may be applied to all. Although many standards have been suggested, and none can be taken as an absolute measurement, it is generally accepted that the minimum adequate reserve at the beginning of a recession should be sufficient to cover the entire cost of the recession.

Based upon its research, the Benefit Financing Committee of the Interstate Conference of Employment Security Agencies has suggested that

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one and one-half times the highest benefit cost rate in any 12-month period in the past decade expressed as a percentage of total wages is an appropriate measure of the cost of a recession. It recommended, therefore, that one and one-half times the highest cost rate be used as a measure of a minimum adequate reserve. Total reserves of all States as of June 30, 1963, amounted to 1.42 times the highest 12-month benefit cost rate since 1953. Thus, State reserves taken as a whole failed to meet this standard. Measured by this criterion, 24 State reserves are inadequate. Six of these have reserves which, exclusive of taxes collected during the 12-month period, are too low to finance 12 months of benefits at the highest cost rate in the last 10 years.

How did this depletion of State reserves occur?

1. At the end of the war there was a general feeling that State reserves were much higher than was necessary or desirable.

2. State financing formulae failed to compensate adequately for the loss in taxes from employers who did not fully pay the costs attributable to their unemployment experience, because of the imposition of a ceiling on tax rates.

3. Many States failed to make adequate provision for the financing of benefit payments which are not charged to any individual employer, because he is not responsible for the worker's unemployment, and thus are in effect paid from the State reserve.

4. Several States were unusually hard hit by the last three recessions and were unable during economic upturns to recoup the losses to their funds.

Attaining Fiscal Soundness

A State wishing to put itself on a sound fiscal footing may consider the following:

1. Increase the minimum tax rate. For 1963, the minimum tax rate varied from 0 in seven States to 2.7 percent in seven States. What is an equitable minimum rate to be assessed against an employer for current contributions, regardless of how favorable in prior years have been his unemployment experience, the size of his reserve, and his payments into the fund? All employers gain certain advantages from the unemployment compensation system that accrue to them even if not a single former worker has drawn benefits.

Even though his experience has been most favorable, it would seem that an employer should contribute materially to the financing of the system. A real question exists as to whether a nominal or a zero rate is either equitable or financially wise in a social insurance program.

2. Increase in maximum rate. As I have indicated, no employer is required to pay taxes at a rate higher than the maximum set by law, no matter how adverse his benefit payment experience has been. Employers who pay their own way at rates below the maximum have long argued that an increase in maximum rates will provide for more equitable distribution of unemployment compensation costs and further the implementation of experience rating principles.

As a revenue-raising measure, however, raising maximum rates has its limitations. Many employers at maximum rates have failed to pay their own way by so wide a margin that prohibitive rates would be required to make their accounts self-sustaining. There is obviously a point beyond which the rate of unemployment compensation taxes may defeat employment security objectives.

No unanimity of opinion exists on the question of how high the tax rate may be set before it becomes self-defeating. This subject needs much more study than it has received.

3. Higher tax schedules. Enactment of higher tax schedules without change in the minimum or maximum rates as the sole solution to benefit financing problems should be approached with caution. It brings many more employers to the maximum rate where they no longer pay their own way. The burden of their deficits is thrown upon more stable employers. Those employers already at the maximum rate and those who remain at the minimum rate pay no increase in taxes. The burden of fund rebuilding, therefore, may be borne almost entirely by relatively stable employers whose rates are between the minimum and the maximum of the rate schedule.

4. Imposition of additional taxes on all employers to compensate for costs unallocated to individual employers because of deficits or noncharging. This is a highly effective device utilized by some States. It has the advantage of isolating what has been termed "socialized costs," and tailoring the additional tax to fit the need. It spreads such costs equally among all employers. The adoption of this device certainly goes a long way to eliminate a basic reason for the failure of many State systems to maintain an adequate fund.

5. Increase the wage base upon which taxes are payable. The relationship of the taxable wage

base to the maximum rate should be considered here. Since the maximum rate is applicable only to taxable payrolls, its effect as applied to total payrolls varies with employers on the basis of their wage rates. Thus, an employer at the maximum rate who pays each of his workers $3,000 a year in a State with a $3,000 taxable wage base and a 4-percent maximum rate is effectively taxed at 4 percent of his payroll. Another employer in the same rate group, who pays each of his workers $6,000 annually, pays at an effective rate of 2 percent of total payroll. We thus have, in effect, a variable maximum tax rate as applied to total payroll. As long as there is such wide variation in the impact of the maximum tax rate, certain difficulties arise in determining at what point the tax rate ceiling should be placed. While the 4 percent tax on the first employer's total payroll may cause hardship, a 2 percent tax on the second employer's total payroll may not.

It must be recognized, of course, that any increase in tax base has the effect of redistributing the incidence of the tax among employers. The initial impact would raise taxes of all employers who pay wages in excess of the old wage base.

Eventually, however, as the reserves of stable employers in reserve ratio States reach the appropriate levels, their rates would tend to be reduced and stabilized at the point necessary to maintain such reserves. In benefit wage ratio and benefit ratio States, an increase in the tax base would eventually reduce the ratio of benefits or benefit wages to taxable wages, and the rates of employers who do not remain at the maximum would then tend to fall and stabilize at the point where replenishment of benefits paid out would result. For employers at the minimum and at the maximum of the rate schedule, however, such increase would remain in effect as long as they were at the minimum or maximum. The initial impact, of course, would affect only those employers who pay wages in excess of the old wage base.

6. Tie fund goals to some factor relating to benefit payments. As indicated, some State reserves fall because of failure to keep pace with the increased cost of benefits. Some States have tied their rate schedules to a multiple of benefits paid in a prior period. Some States have requirements tied to flat dollar amounts or percentages of taxable payrolls. In these States, consideration should be given to factors that will assure a reserve requirement that will increase proportionally to increased benefit payment obligations, such as multiples of benefits paid in prior years, or a percentage of total rather than taxable payroll.

7. States which do not have explicit authority to borrow from the Federal loan fund should obtain such authority. Recognizing that some States might be brought to the brink of insolvency so suddenly as not to permit timely corrective action, Congress has provided for the establishment of a Federal loan fund.

To borrow from this fund, an application must be made by the Governor of the State which seeks the loan. In some States, the Governor's authority to apply for such funds has been questioned. Each State whose Governor does not have the necessary authority should consider providing him with it, so that, should circumstances warrant, it may apply for a Federal loan.

Impact of Inadequate Reserve

What are the consequences of failure to maintain an adequate reserve?

1. The day the first State suspends the payment of benefits for lack of funds will see the beginning of the end of the system of State-Federal unemployment compensation as we know it today.

2. An inadequate fund leaves no room for the adoption of contracyclical devices, and the objective of reducing taxes in times of economic stress and increasing them in times of economic expansion cannot be fulfilled; it results in a pay-as-you-go system with a consequent wide, uncontrolled variation in rates from one year to the next.

3. It inhibits maintenance of the appropriate relationship between the weekly benefit amount and the average weekly wage.

4. It distorts and diminishes the area of operation of experience rating principles and prevents the distribution of rates equitably among employers.

No single approach to the problem of solvency and fund adequacy will be applicable to all States. For this reason, State agencies conduct continuous research into these matters. To convert research into needed improvement requires employer cooperation. But, agreement among employers on a course of action is sometimes difficult to attain because any change in formula is bound to affect individual employers differently. At times, the

interests of small employers are adverse to those of large employers, low-wage employers to high-wage employers, or stable employers to unstable employers. Employer organizations should take a statesmanlike approach to these problems so that program improvement may be had through unanimity of opinion.

Reinsurance and Cost Equalization

In addition to actions taken by States individually to assure a sound benefit financing program and an adequate reserve, there are steps that may be taken collectively.

One of these is to provide for a measure of equalization of costs among the States, and another is to provide indemnity against catastrophic increases in a State's costs.

The Interstate Conference of Employment Security Agencies' Benefit Financing Committee has been working for some time to design practical and generally acceptable methods for achieving these objectives. It has arrived at tentative proposals which are at present still under study and have not yet been voted on by the States.

Implication of Extended Benefits

It is clear that the enactment of a permanent program for dealing with the long-term unemployed is desirable, and that Congress will likely consider this problem before another recession occurs. Opinion differs on what this program should be, and many questions must be answered.

How long shall the extended duration be? Shall it apply only to recession periods? If so, shall it be triggered on a State-by-State basis or on a national basis?

Shall it be a Federal program, a State program, or a State-Federal program?

How shall the program be financed—through payroll taxes or general revenue?

Shall employees be required to contribute?

Shall recipients be compelled to take training courses to which they are referred as a condition of eligibility?

To what extent should the concept of need be introduced?

Shall extended benefits be payable only to principal wage earners?

Many problems must be solved before the benefit financing systems of all States adequately meet the needs of their unemployment compensation programs. To find solutions, all States must recognize the nature of their fiscal responsibilities and the need for prompt action to eliminate any current defects in their benefit financing systems, for continuous appraisal of these systems to determine whether they are operating satisfactorily, for prompt corrective action when indicated, for cooperative reduction of risks through reinsurance and cost equalization, and for an adequate Federal loan fund and a soundly financed plan for future extended benefits.

Extension of Coverage: New York State's Experience

*Leslie A. Curthoys**

DURING the first two decades of unemployment insurance operations, New York State covered employers of four or more persons. On January 1, 1956, the first part of a three-stage "extension of coverage" plan brought into the system employers of three persons. This increased the file of covered employers from 180,000 to about 230,000. One year later, employers of two persons were added, increasing the file to about 295,000. The final stage added another 75,000 new employers on January 1, 1960, when coverage was extended to those who paid wages totaling $300 or more in a calendar quarter. Today we have 380,000 registered employers.

Recognizing that extension of coverage would eventually more than double the size of our employer accounting activities, plans for action were carefully prepared even before the law was amended. Representatives from New York visited other

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States which had recently extended their employer coverage. An evaluation of the experience of these States helped considerably in the development of our plan of action. Our plans included the development of detailed procedures and the design of the necessary forms; obtaining additional staff, space, and equipment; developing timetables; providing for wide publicity; and followup to determine the effectiveness of the system.

One of the first problems to be resolved—and probably the most important—was the selection of the means of identifying the vast number of new employers to be brought into the system. Obviously we could not rely on publicity alone to induce these small employers to identify themselves. We had to take the initiative to identify them promptly and accurately—and notify them individually of their obligations. This was especially true in New York which is a request-wage-reporting State. Since wage and employment information is obtained from the employer on request at the time a claim is filed, it is essential that newly liable employers be registered immediately to insure prompt and accurate payment of benefits.

For many years, New York had "preregistered" new employers upon receipt of any information indicating liability under the law. The chief source of such information was copies of Form SS–4, Application for Employer Identification Number, furnished by the U.S. Treasury Department. Briefly, "preregistration" included the assignment of an account number; notification to the employer of the basis for holding him liable; and a request that he submit a registration form giving complete information so that we could review his liability under the law. Then, if information submitted showed that the employer was not liable, we canceled his account and advised him. Since our experience with this method had been excellent, we decided to use the preregistration technique in each stage of the extension of coverage program.

The basic plan adopted for the first two stages of extended coverage used quarterly Social Security reports, Form 941A, filed by New York State employers, showing sufficient employees to make the employer liable. A check of these forms against the master file of employers eliminated those already registered. All others were preregistered and notified of their liability under the extended-coverage provisions of the law. The procedure used in the final stage—extension of coverage to employers who paid $300 in wages—differed only to the extent that the source material was a roster of New York State employers required to file under the Federal Insurance Contributions Act instead of the actual 941 A's. The roster consisted of addressographed listings from four of the New York district offices of the Internal Revenue Service and interpreted tabulating cards from the other two offices. These listings and cards covered all New York State employers who were mailed Form 941 for the fourth quarter of 1958.

When we adopted the preregistration method, we realized that since the information on the 941A's was not current and showed only the number of persons employed during the quarter—but not necessarily on the same day—many employers would be registered who were not liable. However, the number of cancellations which resulted was not excessive. For example, of 100,000 employers preregistered as of January 1, 1960, about 25,000, or 25 percent, were found to have been exempt or to have discontinued business before 1960.

During each stage of the extension of coverage, statewide publicity campaigns were used to reach all employers. We used television and radio announcements, posters, handbooks, and leaflets. Hundreds of workshop meetings and lectures were conducted at various locations throughout the State and were well attended by employers and their representatives. The Internal Revenue Service cooperated by inserting flyers with their reporting forms mailed to New York employers. Through the cooperation of the New York State Bankers Association, several hundred commercial banks mailed flyers with their bank statements to their depositors. These flyers explained the extended coverage provisions of the law and provided a medium through which the employers could notify us of their liability. Several thousand new employers were identified through this means.

Although New York used all the techniques outlined above to insure the registration of all new employers, the question still remained—How effective were we? To answer this question, we conducted a postregistration survey after each of the three stages of the plan. Payroll Examiners from the Field Audit Section conducted surveys in key cities, large and small, and in selected villages. The examiners visited all employing entities in contiguous areas—a square block, a

	1960 survey			1957 survey			1956 survey		
	Number	Percent	Percent	Number	Percent	Percent	Number	Percent	Percent
Employers contacted	4,603	100		4,758	100		2,481	100	
Exempt	936	20.4		1,357	28.5		1,069	43.1	
Liable	3,667	79.6	100	3,401	71.5	100	1,412	56.9	100
Liable and registered	3,571		97.4	3,316		97.5	1,374		97.3
Liable but not registered	96		2.6	85		2.5	38		2.7

single building, a series of floors in a large building, or an entire village—to uncover employers who were missed in our preregistration efforts. Results are shown in the accompanying table.

From the results of these surveys, which showed only about 2.6 percent of the employers "liable but not registered," we are convinced that our method of preregistration was highly effective. In fact, further study showed that about 80 percent of the nonregistered liable employers uncovered in the 1960 survey did not become liable until sometime in that year. These employers, of course, were not included in the mass preregistration operation which was completed in 1959. It seems reasonable to assume that most of them would have registered of their own accord within a few months.

Employer report delinquency could be a big problem with small employers new to the unemployment insurance system. To keep such delinquency to a minimum, a "reminder" letter was mailed to each newly registered employer shortly before his first report and tax payment were due. The letter explained the importance of filing and paying on time and the consequences of late filing.

A study of report delinquency covering periods before and after each stage of the extension of coverage showed that initially the registration of small employers created a higher rate of delinquency which leveled off within a few quarters to a normal rate. Once these new employers became familiar with our reporting requirements, they reported almost as promptly as the older members of the system.

New York is highly pleased with the success of its extension-of-coverage program. During each stage, all operations proceeded on schedule without interfering with the normal day-to-day operations of the Division. Success was due mainly to careful and detailed planning initiated long before the legislation extending coverage was passed. Included in this planning were a comprehensive timetable of all phases of the operation; detailed procedures; and complete provisions for obtaining personnel, space, and equipment when needed.

After the initial problems of registering the large mass of new employers, we found that the main effect of the extension of coverage was to increase the work involved in employer accounting activities. There were twice as many new employers entering the system and twice as many accounts to close out. The number of reports filed and the number of adjustments required also increased in proportion to the number of registered employers. As to the benefit payment side of the story, the effect of adding 200,000 new employers was negligible because the percentage increase in the number of covered employees was very small.

New York does not hesitate to recommend the extension-of-coverage program to other States. Careful and detailed planning and adherence to schedules are necessary for a successful operation. Some form of preregistration such as that described above appears to be the best method. While this results in a considerable number of cancellations, it is one method of getting all the new employers into the system promptly.

We must modernize our Unemployment Insurance and establish a high level Commision on Automation. If we have the brainpower to invent these machines, we have the brainpower to make certain that they are a boon and not a ban to humanity.

—President Johnson, in his *State of the Union* message delivered to the Congress January 8, 1964

State UI Legislation in 1963

*Alice M. Demerjian**

SUBSTANTIALLY fewer amendments to the State employment security laws were enacted in 1963 than in the two preceding odd-numbered years. Enacted bills represented only two-thirds, or less, of the number enacted in 1959 and in 1961.

In general, the pattern of the legislation followed that of other recent years—increases in the maximum weekly benefit amount, higher or more difficult qualifying requirements, more restrictive disqualifications, and reduction of the weekly payment to individuals receiving retirement payments. Concern for the financing of the program was reflected in enactments in 18 States to increase the taxable wage base or maximum tax rates or to institute other measures related to reserve fund adequacy. No significant amendments to the coverage provisions were enacted.

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Benefits

The principal amendments to the benefit provisions are shown in the accompanying table.

Maximum weekly benefit.—Increases in the maximum weekly benefit amount, ranging from $1 to $7, were enacted in 10 States. Of these States, Arkansas and North Dakota provided for automatic adjustment of the maximum weekly benefit to the average weekly wage in covered employment in the State: The maximum is computed annually (to become effective in July 1964) as 50 percent of the average weekly wage in the preced-

ing calendar year. During 1963, increases in the maximum weekly benefit also became effective in seven other States (District of Columbia, Idaho, Kansas, South Carolina, Utah, Vermont, and Wisconsin) that had previously adopted similar provisions for automatic adjustment of the maximum benefit.

Wyoming, which had enacted a similar provision in 1957, amended it in 1963 to compute the maximum as 50 percent of the average wage (instead of 55 percent) and also repealed the provision for dependents' allowances. As a result of these amendments, single claimants previously eligible for a maximum benefit of $49 and heads of families eligible for $55 (the maximum weekly benefit plus maximum dependents' allowances) now receive $45.

Minimum weekly benefit.—In a few States sizable increases were made in the minimum weekly benefit. The increases ranged from $1 in New Hampshire and $2 in West Virginia to $4 in Tennessee; to $5 in Arkansas, North Dakota, and Oregon; and $25 in California. Except in California and New Hampshire, where there was no corresponding increase in the amount of wages required to qualify for the minimum benefit, these enactments have the effect of excluding from benefits some workers with low wages and relatively brief attachment to the covered work force, who were previously entitled to benefits.

Benefit formula.—Ohio, Oregon, and Vermont changed their formulas for computing the weekly benefit, all three States had previously had a high-quarter-wage formula. Oregon changed to an annual-wage formula and Ohio and Vermont to an average-weekly-wage formula—in the latter State, based on wages in the claimant's 20 best weeks in his base period.

Qualifying requirements.—Higher qualifying requirements—in terms of dollar amounts or multiples of weekly benefit amounts—were adopted in Massachusetts, Nebraska, North Dakota, Utah, and West Virginia. Tennessee lowered its qualifying wage to 36 times the weekly benefit amount.

CHANGES ENACTED IN 1963 IN MINIMUM AND MAXIMUM WEEKLY BENEFIT AMOUNTS, QUALIFYING REQUIREMENTS AND DURATION OF BENEFITS

State	Weekly benefit amount [1]				Qualifying requirements		Duration of benefits (Weeks of total unemployment)	
	Minimum		Maximum					
	From	To	From	To	From	To	From	To
Arkansas	$10	$15	$30	[2] 50%				
California	10	25						
Colorado							Lesser of 32½ weeks and ⅓ of base-period wages.	Lesser of 26 weeks and ¼ of base-period wages.
Massachusetts			[1] 40	[1] $45	$650	$700		
Michigan			[1] 30–55	[1] 33–60				
Nebraska			34	38	$400 in two quarters with at least $100 in each of such quarters.	$600 in base period and at least $200 in each of two quarters.		
New Hampshire	12	13	40	45	$600–$3,000	$600–$3,600		
North Dakota	10	15	36	[2] 50%	39 times weekly benefit amount.	40 times weekly benefit amount.	24 Uniform	18, 22, and 26 (varying with base-period wages).
Ohio					20 weeks of employment and $240 in base period.	20 weeks of employment (at least $20 in each week).		
Oregon	15	20	40	$44				
South Dakota			33	34	$600–$3,100	$600–$3,200		
Tennessee	8	12	32	36	40–60 times weekly benefit amount.	36 times weekly benefit amount.	22 Uniform	Lesser of 26 weeks and ¼ of base-period wages.
Utah					$400 in base period and 19 weeks (16 hrs. or 2 full days in each week).	$700 in base period and 19 weeks (at least $20 in each week).		
Vermont					30 times weekly benefit amount.	20 weeks of employment (at least $20 in each week).		
West Virginia	10	12	32	35	$500–$3,000	$700–$3,650		
Wyoming	[1] 10–13	10	55%	[2] 50%	1½ times high-quarter wages.	1½ times high-quarter wages and 26 weeks (at least $18 and 24 hours in each week).		

[1] When two amounts are given, higher includes dependents' allowances. Maximum benefit for claimant with maximum number of dependents not shown for Massachusetts because it is limited only by his average weekly wage. Provision for dependents' allowances repealed in Wyoming.

[2] Fifty percent of average weekly wage in covered employment in the preceding calendar year; maximum amounts effective in July 1963 were: Arkansas, $35; and North Dakota, $43. In Wyoming, the change from 55 percent to 50 percent decreased the maximum weekly benefit amount for claimants without dependents from $49 to $45.

In two States, the qualifying provisions were supplemented by the addition of further requirements: in Ohio, by the requirement of $20 in wages in each week of employment and in Wyoming, by a requirement of 26 weeks of employment with wages of $18 or 24 hours of work in each week. With the change of benefit formula in Vermont, a qualifying requirement of 20 weeks of work with wages of at least $20 in each week was adopted. Also, the base period was changed to the 52-week period immediately preceding the benefit year.

Duration.—Provisions for the regular duration of benefits were not improved in 1963 and only Puerto Rico adopted a measure to extend benefits, limited to "special" unemployment situations. Three States amended their provisions on regular duration of benefits. Colorado reduced the maximum number of weeks of benefits payable to any claimant for 32½ weeks to 26 weeks, and each individual's maximum benefits from one-half of his base-period wages to one-third of such wages. North Dakota and Tennessee, which previously provided uniform duration of benefits, adopted a provision to vary maximum annual benefits with the claimant's base-period wages, up to a maximum of 26 weeks.

In North Dakota, the new duration formula entitles an individual to 18 weeks of benefits if his base-period wages equal 40 times his weekly benefit (the minimum qualifying requirement), but less than 55 times his weekly benefit; 22 weeks of benefits, for base-period wages of at least 55 times the weekly benefit but less than 70; and 26 weeks for 70 or more times the weekly benefit amount. Under this formula, individuals who just meet the minimum qualifying requirement are entitled to benefits equal to 45 percent of their base-period wages; those who just meet the requirement for 22 and 26 weeks of benefits may receive in benefits approximately 40 percent of their base-period wages. Individuals whose base-period earnings fall short of meeting the requirement for 22 or 26 weeks of benefits may receive in benefits no more than one-third of their base-period earnings.

Deductible income.—Restrictions in the payment of benefits were adopted in four States. Ohio and Wyoming reduce the weekly benefit if the claimant receives old-age benefits under title II of the Social Security Act. New York, Ohio, and Wyoming reduce the weekly benefit for claimants receiving retirement payments under retirement plans contributed to by the employers (in New York, chargeable employers only and in Wyoming, base-period employers).

Michigan added a provision for deducting certain workmen's compensation payments from the weekly benefit and Utah, various types of payments received by a worker upon separation from employment.

Interstate claims.—Unusual measures were taken in Ohio and Wyoming to reduce further the benefit payable to a claimant who leaves the State. A claimant filing an interstate claim against Ohio receives the average weekly benefit being paid at the beginning of his benefit year in the State from which he files his claim or a benefit computed for him under the Ohio formula, whichever is less; moreover, his maximum entitlement is reduced by the amount of the weekly benefit which he would have received if he had not left the State. Wyoming limits an interstate claimant's weekly benefit to 75 percent of the amount computed under the Wyoming law or the minimum weekly benefit provided in the State from which he files his claim, whichever is less.

Other amendments.—South Dakota enacted a provision which would withhold benefits from 7, 9, 11, or 13 weeks if the claimant had base-period wages of $6,000 to $9,000 or more. It was specified in the amendment that the provision (to become effective on January 15, 1964) would be inoperative if the Secretary of Labor found, by January 8, 1964, that it did not meet the requirements of Federal law. On January 3, 1964, the Secretary found the provision to be inconsistent with section 303(a)(5) of the Social Security Act and section 3304(a)(4) of the Federal Unemployment Tax Act.

Other amendments enacted in 1963 included the repeal of the waiting week in Delaware, and changes in the requalifying requirement for a second benefit year in Idaho and Tennessee and in the formula for computing partial benefits in South Dakota and Wyoming. Wisconsin, which previously determined benefits for each period of unemployment, adopted a 52-week benefit year commencing with a valid new claim week.

Eligibility and Disqualification Provisions

Arkansas and Hawaii amended their availability-for-work provisions to permit payment of benefits to claimants attending approved vocation-

al training or retraining courses. The provision in Arkansas is limited to short-term courses supported by a congressional appropriation and the claimant is deemed to be available and making a reasonable effort to secure work so long as attendance and progress are satisfactory and he does not refuse to apply for or accept suitable work when directed to do so by the employment security agency.

Major disqualifications.—Nine States changed their disqualifications for one or more of the three major causes—voluntarily leaving work, discharge for misconduct, and refusal of suitable work. In most of the States, the disqualifications were made substantially more restrictive.

Colorado, which previously disqualified claimants for a specified number of weeks following voluntary leaving, discharge for misconduct, and refusal of work (with an equivalent reduction of benefits), changed to a system of "awards" for payment of benefits. A "full award"—i.e., no disqualification—is made if the worker is laid off for lack of work or his separation is due to situations specified in the law. Fifty percent of the full award (one-half of the weekly benefit amount and one-half of potential benefits in the benefit year) is made if the claimant was discharged or quit work under specified circumstances in which, presumably, both the employer and worker shared responsibility for the work separation. If the separation is the second consecutive such separation since the beginning of the base period, "no award" is made. Separations under a list of conditions specified in the law also require a determination of "no award"—that is, cancellation of all wage credits prior to the condition and invalidation of any base period, benefit year, or valid claim established prior to the determination.

Similarly, a system of "special awards," prescribing conditions under which a "full" or "no" award is made, appears in the Colorado law, applicable to separations because of pregnancy, family obligations, or return to school and, by regulation, to other conditions reflecting a separation from active attachment to the labor force. Also, under a provision for "optional awards" supplemented by regulation, the agency may grant one of the four foregoing types of awards for separations arising from a specified list of situations, as well as other situations not specifically covered under the other award provisions.

Florida amended its voluntary-quit disqualification to limit good cause to that attributable to the employer, or to illness or disability other than pregnancy. North Dakota, Tennessee, and Wyoming (where claimants were previously disqualified for a specified period for the three major causes) now disqualify for the duration of the unemployment, and in Wyoming all accrued benefits are forfeited. South Dakota lengthened its maximum disqualification for voluntary leaving and discharge for misconduct—in the latter case, to as much as 24 weeks. Nebraska added to its disqualification for voluntary leaving and discharge for misconduct a provision to reduce benefits by an amount equivalent to the disqualification (1–6 weeks). Montana increased its minimum disqualification for the three major causes from 1 week to 2 weeks.

West Virginia, which in 1961 had enacted a duration-of-unemployment disqualification for discharge for misconduct, amended its law to restrict application of this disqualification to discharges for gross misconduct, and restored its previous disqualification of 6 weeks and equivalent cancellation of benefits (applicable only if the claimant did not return to covered employment for 30 days during the benefit year).

Labor-dispute disqualification.—Three States amended their labor-dispute provisions by extending the scope of the disqualification either in terms of the place of the dispute or the length of the disqualification. Two of these States now apply this disqualification to establishments other than the one in which the dispute occurred: In Michigan, to any establishment within the United States functionally integrated with the striking establishment or owned by the same employing unit and, in Ohio, to any factory, establishment, or other premise located in the United States and owned or operated by the employer. Colorado extended the length of the disqualification beyond the termination of the dispute for a reasonable period of time necessary for the establishment to resume normal operations.

Financing

Over one-third of the State legislatures that met in 1963 enacted some legislation related to taxation. The taxable wage was increased in five States: Tennessee to $3,300; Idaho, Michigan, and Vermont to $3,600; and Utah to $4,200. Fourteen States now have provisions to tax wages in

excess of $3,000. Idaho also increased its standard rate of contributions to 2.9, 3.1, or 3.3 percent, depending on the level of the unemployment fund. Ohio increased its standard rate to 4.0 percent.

Tax rate structures were strengthened in Oregon, Utah, and Vermont by the addition of "array" methods of rate assignments. This is a method of rate assignment which guarantees a specified, predetermined tax yield per year. Reserve fund adequacy and trigger points for signaling the application of higher or lower tax yielding schedules are now measured in terms of total, rather than taxable, wages in Arkansas, Utah, and Vermont. In Nevada, the use of total wages as indicators of fund adequacy was retained as a result of a gubernatorial veto of a bill which would have provided for the use of taxable wage measures. Total wage indicators measure current potential benefit liability more adequately than taxable wages, since taxable wages now represent only about 60 percent of total wages in covered employment. In total, these changes, as well as the increases in the taxable wage base, can be viewed as recognition of the need for a strengthening of the financial structure of the unemployment insurance system.

New York and Oregon changed their formulas for computing reduced rates based on employers' experience. The payroll-decline and age factors were eliminated from the New York formula, so that reduced rates are now computed solely on the basis of the employer's account percentage. Oregon changed from a reserve-ratio formula to a benefit-ratio formula.

Maximum contribution rates were increased in 11 States. In five of these States, the increases will be progressive, up to a maximum rate of 4.5 percent in Vermont (effective July 1, 1965); 4.0, 4.5, and 4.4 percent, respectively, in Arkansas, Florida, and Wisconsin (effective in 1966); and 6.6 percent in Michigan (effective in 1968).

The increases in the other six States become effective in 1964. New Hampshire, New Mexico, and Wyoming, previously with maximum rates of 2.7 percent, raised them to 4.0, 3.6, and 3.2 percent, respectively. Ohio, which previously had a maximum rate of 3.2 percent, advanced it to 4.7 percent; and Idaho increased its previous 3.375 percent maximum to 5.1 percent. An increase in Hawaii's maximum rate to 3.0 percent is effective through June 30, 1964, after which it will revert to 2.7 percent.

Experience Rating, 1962 Summary

*Paschal C. Zecca**

THE national average employer tax rate in 1962 amounted to 2.36 percent of the aggregate State taxable wages, the highest since 1941 when only 17 States had experience ratings in effect and the tax rate for the 51 States averaged 2.58 percent. This comparison, however, does not take into full consideration changes in the potential liabilities of the program, which are reflected much more closely by total earnings in covered employment rather than taxable earnings. Taxable payrolls in 1941 were almost equal to total payrolls since most workers were then earning under $3,000; by 1962 the proportion had dropped to three-fifths. When this is taken into account, it is found that the average tax rate based on *total* wages was lower in 1962 than in 1941—1.39 percent as against 2.37 percent. The effect of experience-rating provisions in State laws on 1962 operations is reflected in tables 1–4.

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Average Tax Rates by State

For individual States, the 1962 average tax rate based on taxable wages varied from 0.78 percent in Iowa to 3.44 percent in New York (table 1). Four States had suspended their reduced rates and were taxing employers at the standard rate of 2.7 percent: Oregon, except for the fourth quarter of 1959, since the second quarter of 1958; Rhode Island, since 1949; Washington, since the

Table 1. Selected Experience-Rating Data, by Type of Plan, Rate Years Beginning in 1960-1962

Type of plan and State 1/	Tax base ($3,000 except as shown)	Average employer contribution rate (percent of taxable wages)					Reduction in revenues 2/ 3/ (percent)		
		1963 rates		Average rate 2/					
		Maximum	Minimum	1960	1961	1962	1960	1961	1962
Total, 51 States 4/	--	--	--	1.88	2.02	2.36	30	29	16
Reserve-ratio plan:									
Arizona 5/	--	2.7	0.2	1.33	1.34	1.42	51	50	47
Arkansas 5/	--	2.7	0.1	1.29	1.37	1.43	52	49	47
California	$3,800 (1/1/62)	3.5	2.2	1.96	2.19	3.08	30	27	+14
Colorado 5/	--	2.7	0.0	.54	1.13	1.34	80	58	50
Dist. of Columbia	--	2.7	0.1	.86	.85	.98	68	68	64
Georgia	--	2.7	0.25	1.36	1.33	1.40	50	51	48
Hawaii 5/	$3,600 (1/1/62)	2.7	0.0	1.19	1.21	1.25	56	55	54
Idaho	--	3.375	1.625	1.66	2.36	2.45	39	12	9
Indiana 5/	--	2.7	0.1	1.23	1.12	1.34	54	58	50
Iowa 5/	--	2.7	0.0	.61	.64	.78	77	76	71
Kansas 5/	--	2.7	0.0	1.06	1.07	1.24	61	60	54
Kentucky 5/	--	4.0	0.6	2.20	2.12	2.16	19	21	20
Louisiana	--	2.7	0.6	1.56	1.56	1.83	42	42	32
Maine 5/	--	2.7	1.4	1.63	1.78	1.98	40	34	27
Massachusetts	$3,600 (1/1/62)	3.9	1.1	1.88	2.15	2.61	30	20	3
Michigan 5/ 6/	--	4.5	0.5	2.88	2.90	2.98	+7	+7	+10
Missouri 5/	--	3.9	0.0	1.05	1.48	1.51	61	45	44
Nebraska 5/	--	2.7	0.1	1.05	1.15	1.25	61	57	54
Nevada	$3,600 (1/1/54)	2.7	0.1	2.16	2.38	2.37	20	12	12
New Hampshire	--	2.7	0.5	1.65	1.60	1.61	39	41	40
New Jersey 5/	--	3.9	0.7	2.20	2.43	2.53	21	13	10
New Mexico	--	2.7	0.1	1.25	1.24	1.31	54	54	51
North Carolina 5/	--	3.7	0.3	1.60	1.49	1.47	41	45	46
North Dakota 5/	--	7/ 4.2	0.9	1.98	2.18	2.44	46	41	42
Ohio 5/	--	3.2	0.6	1.48	1.43	2.12	45	47	21
Oregon 5/	$3,800 (1/1/60)	2.7	(4/)	2.70	2.70	2.70	(8/)	(8/)	(8/)
Rhode Island	$3,600 (1/1/56)	2.7	(4/)	2.70	2.70	2.70	(8/)	(8/)	(8/)
South Carolina 5/	--	4.1	0.25	1.13	1.12	1.09	58	58	60
South Dakota 5/	--	3.6	0.0	.81	.99	1.31	70	63	64
Tennessee	--	4.0	0.75	1.71	1.72	1.75	37	36	35
West Virginia 5/	$3,600 (1/1/62)	2.7	(4/)	2.70	2.70	2.70	(8/)	(8/)	(8/)
Wisconsin 5/	--	3.6	0.0	1.41	1.47	1.40	48	45	48
Benefit-wage-ratio plan:									
Alabama	--	3.6	0.5	1.18	1.53	1.89	56	43	30
Delaware	$3,600 (1/1/55)	4.3	1.4	2.42	1.98	2.46	10	27	9
Illinois	--	4.0	0.1	2.05	2.07	2.20	24	23	19
Oklahoma	--	2.7	1.2	1.20	1.33	1.86	56	51	31
Texas	--	2.7	0.1	.90	.92	.92	67	66	66
Virginia	--	2.7	0.4	.87	1.10	1.31	68	59	51
Benefit-ratio plan:									
Florida	--	2.9	1.1	1.15	1.53	1.84	57	43	32
Maryland	--	4.2	1.6	2.64	3.07	3.21	2	+14	+19
Minnesota 5/	--	3.0	0.6	1.13	1.08	1.52	58	60	44
Pennsylvania 5/ 9/	--	4.0	2.0	2.96	3.23	3.26	26	19	19
Vermont	--	2.7	0.9	1.29	1.52	1.61	52	44	40
Wyoming 5/	--	2.7	0.1	1.31	1.34	1.66	51	50	39
Payroll variation plan:									
Alaska	$7,200 (1/1/60)	4.0	1.5	2.91	2.91	2.76	(10/)	27	31
Mississippi	--	2.7	1.0	1.96	1.98	2.02	27	27	25
Utah	--	2.7	1.2	1.45	1.43	1.43	46	47	47
Washington	--	2.7	(4/)	2.70	2.70	2.70	(8/)	(8/)	(8/)
Compensable-separation plan:									
Connecticut	--	2.7	1.5	2.08	2.08	2.09	23	23	23
Payroll variation and reserve ratio:									
New York 5/	--	4.2	2.1	2.25	2.89	3.44	17	+7	+27
Payroll variation and benefit ratio:									
Montana 5/	--	2.7	0.5	2.20	2.39	1.59	19	12	41

1/ States classified by type of plan in effect at end of 1962; no change has occurred since 1959.
2/ Computed on calendar-year basis. Includes effect of voluntary contributions collected from employers during the year; see footnote 5.
3/ Represents difference of the estimated yield at the average rate from the standard rate as a percent of the estimated yield at the standard rate.
4/ Reduced rates for employers (reduction of the standard rate through experience rating) were not assigned in Oregon, Rhode Island, Washington, and West Virginia.
5/ State law provided for voluntary contributions during the 1962 rate year.
6/ The standard rate in Michigan is 2.7 percent for all nonseasonal employers and 3.0 percent for seasonal employers.
7/ Rate of contributions for employment covered by an election is 7.0 percent, unless the employer qualifies for a rate of contribution of less than the standard rate.
8/ No reduction in revenue since all employers were assigned the standard rate of 2.7 percent.
9/ Alaska, which had repealed its experience-rating provisions as of January 1, 1955, readopted an experience-rating system beginning October 1, 1960.
10/ Less than 0.5 percent increase in revenue.

third quarter of 1958; and West Virginia, since 1960. Thirty-five of the 51 States had average tax rates below the national average of 2.36 percent, 18 States had below 1.5 percent, and 3 States had under 1.0 percent. State comparisons of average tax rates would not be valid among States with different tax bases, but comparisons can be made by expressing average contribution rates as percentages of total wages. For example, New York, with a $3,000 taxable wage base, had the highest average tax rate based on *taxable* wages—3.4 percent. As a percentage of *total* wages, however, this was only 1.9 percent. In contrast, Alaska's average tax rate of 2.8 percent, based on a *taxable* wage base of $7,200, was equivalent to 2.3 percent on *total* wages (first in rank).

These average rates, when compared with the standard rates, indicate the reduction in revenue resulting from the operation of the experience-rating provisions. For all 51 States with experience-rating systems, an average rate of 2.36 percent in 1962 amounted to a 16-percent reduction in revenue from the standard rate, denoting the difference between contributions at the standard rates and the effective rates. The reduction occurred in 43 States, with percentage reductions ranging from 71 percent in one State (Iowa) to zero in the four States which suspended reduced rates. Of the remaining four States (California, Michigan, Maryland, and New York), which had relatively high average tax rates in 1962, there was from 10 percent to 27 percent more in revenue than would have been paid under the standard rate (2.7 percent) in these States. In every State except five, the standard tax rate for each employer was 2.7 percent of his taxable wages. Standard rates above 2.7 percent were in effect in New Jersey (2.8 percent), Alaska (2.9 percent), South Dakota (3.6 percent), Pennsylvania (4.0 percent), and North Dakota (4.2 percent).

Distribution of Taxable Wages by Tax Rate

The relative distribution of taxable wages by tax rate provides some of the detail resulting from the operation of State tax structures, which vary widely among the States (table 3). In some cases, where taxable wages are heavily concentrated in a few tax-rate intervals, the question arises as to whether the tax structure is the primary causal

Table 2. Average Employer Contribution Rate,[1] by Type of Experience-Rating Plan, 1944-62
(rates expressed as percent of taxable wages)

Year	Rate all States	All experience-rating States		Reserve ratio plan		Benefit-wage ratio plan		Benefit ratio plan		Payroll variation plan		Other plan [2]	
		Number	Rate	Number	Rate	Number	Rate	Number	Rate	Number	Rate	Number	Rate
1944.....	1.79	42	1.59	26	1.89	8	1.16	7	1.38	--	--	1	2.12
1945.....	1.60	45	1.56	27	1.69	8	1.05	6	1.65	1	1.99	3	2.05
1946.....	1.41	45	1.37	28	1.45	8	.97	5	1.34	1	1.81	3	1.98
1947.....	1.41	50	1.40	28	1.41	8	.98	6	1.44	4	1.97	4	2.00
1948.....	1.24	51	1.24	28	1.28	8	1.00	6	1.52	5	1.73	4	1.24
1949.....	1.31	51	1.31	29	1.19	7	1.07	6	1.39	5	2.09	4	1.76
1950.....	1.49	51	1.49	30	1.38	7	1.03	6	1.12	5	2.30	3	2.50
1951.....	1.58	51	1.58	30	1.41	7	1.34	6	1.30	5	1.92	3	2.57
1952.....	1.45	51	1.45	31	1.39	6	.91	6	1.25	5	1.84	3	2.28
1953.....	1.30	51	1.30	31	1.25	6	.77	6	1.21	5	1.82	3	1.94
1954.....	1.12	51	1.12	31	1.14	6	.56	6	1.00	5	1.93	3	1.51
1955.....	1.18	50	1.18	32	1.23	6	.66	5	.79	4	1.89	3	1.45
1956.....	1.32	50	1.32	32	1.39	6	.91	5	.91	4	2.01	3	1.45
1957.....	1.31	50	1.31	32	1.35	6	.84	5	.84	4	2.04	3	1.69
1958.....	1.32	50	1.32	32	1.42	6	.69	5	.88	4	2.28	3	1.53
1959.....	1.71	50	1.71	32	1.80	6	1.01	5	1.58	4	2.38	3	1.96
1960.....	1.88	51	1.88	32	1.76	6	1.49	6	2.34	4	2.36	3	2.23
1961 [3] ...	2.06	51	2.06	32	1.87	6	1.55	6	2.59	4	2.36	3	2.78
1962 [3] ...	2.36	51	2.36	32	2.22	6	1.69	6	2.74	4	2.35	3	3.23

1/ Excludes war-risk contributions which were collected 1943-1946.
2/ In 1961 includes Connecticut (compensable separations), Montana (combined payroll variation and benefit ratio), and New York (combined payroll variation and reserve ratio).
3/ Includes Puerto Rico which has no experience rating plan.

Table 3. Percentage Distribution of Taxable Wages of Rated Accounts, by Contribution Rate and Type of Experience-Rating Plan, Rate Year Beginning in 1962

Type of plan and State 1/	Amount of taxable wages of rated accounts 2/ (in thousands)	Percentage distribution of taxable wages by employer contribution rate											
		Total	0.0	0.1	0.2-0.5	0.6-0.9	1.0-1.8	1.9-2.6	2.7	2.71-3.1	3.2-3.5	3.6-3.9	4.0 and over
Total 47 States 3/	$104,215,069	100.0	1.4	2.2	6.1	8.4	14.6	23.3	10.2	13.1	5.1	8.1	7.5
Reserve-ratio plan: 3/	58,043,854	100.0	2.5	2.1	6.5	8.9	24.5	12.4	8.2	14.3	12.8	3.6	4.3
Arizona 4/ 5/	666,911	100.0	--	--	12.5	21.6	52.3	4.4	9.3	--	--	--	--
Arkansas 5/	596,668	100.0	--	12.2	13.5	23.6	20.1	8.9	21.6	--	--	--	--
California	12,197,994	100.0	--	--	--	--	--	5.6	6.8	51.9	35.7	--	--
Colorado 5/	1,011,532	100.0	4.0	--	4.3	36.1	37.6	--	18.1	--	--	--	--
Dist. of Col.	611,846	100.0	--	55.3	14.3	--	19.9	2.8	7.8	--	--	--	--
Georgia 4/	1,923,687	100.0	--	--	18.4	16.4	41.3	9.9	13.9	--	--	--	--
Hawaii 5/	394,900	100.0	27.0	--	17.4	15.4	17.4	4.2	18.6	--	--	--	--
Idaho	250,359	100.0	--	--	--	--	35.3	49.7	--	9.9	5.1	--	--
Indiana 5/	3,015,873	100.0	--	17.6	19.1	--	37.4	8.1	17.8	--	--	--	--
Iowa 5/	1,198,156	100.0	27.7	11.3	31.7	9.0	1.8	2.3	16.0	--	--	--	--
Kansas 5/	963,951	100.0	2.7	1.2	16.2	33.9	27.3	6.1	12.5	--	--	--	--
Kentucky 5/	1,113,181	100.0	--	--	--	28.9	19.5	--	38.6	--	--	--	13.0
Louisiana	1,383,956	100.0	--	--	--	32.6	23.9	8.9	34.6	--	--	--	--
Maine 5/	490,421	100.0	--	--	--	--	36.9	40.7	22.4	--	--	--	--
Massachusetts	4,227,111	100.0	--	--	--	--	18.6	31.1	4.9	8.0	23.1	14.3	--
Michigan 5/	5,064,470	100.0	--	--	(6/)	(6/)	37.2	9.3	2.0	2.6	2.3	1.9	44.6
Missouri 5/	2,492,194	100.0	15.9	.4	2.0	10.2	43.0	14.0	7.0	3.8	1.8	2.0	--
Nebraska 5/	639,775	100.0	--	10.4	38.5	--	28.5	5.9	16.7	--	--	--	--
Nevada	242,760	100.0	--	.5	.1	.6	28.6	26.0	44.3	--	--	--	--
New Hampshire	403,153	100.0	--	--	10.3	27.7	19.7	19.0	23.3	--	--	--	--
New Jersey 5/	4,323,257	100.0	--	--	--	6.7	25.6	26.6	--	17.8	--	23.4	--
New Mexico	365,444	100.0	--	14.9	17.7	34.6	19.7	3.9	9.2	--	--	--	--
North Carolina 5/	2,287,128	100.0	--	--	23.9	21.4	26.6	13.6	8.8	1.4	.9	3.4	--
North Dakota 5/	173,654	100.0	--	--	--	8.4	39.1	24.9	3.0	5.1	2.8	2.6	14.2
Ohio 5/	6,656,718	100.0	--	--	--	9.2	42.2	15.8	--	5.4	27.3	--	--
Oregon 3/ 5/	--	--	--	--	--	--	--	--	--	--	--	--	--
Rhode Island 3/	--	--	--	--	--	--	--	--	--	--	--	--	--
South Carolina 4/ 5/	1,076,026	100.0	--	--	43.1	15.0	24.2	6.4	9.1	.5	.6	.1	1.0
South Dakota 5/	191,700	100.0	41.4	--	19.2	--	22.1	6.0	--	1.3	--	10.0	--
Tennessee	1,650,477	100.0	--	--	--	29.0	40.9	8.5	10.7	1.9	2.9	2.4	3.7
West Virginia 3/ 5/	--	--	--	--	--	--	--	--	--	--	--	--	--
Wisconsin 5/	2,430,552	100.0	18.7	--	19.4	16.1	18.2	13.0	--	7.4	--	7.1	--
Benefit-wage-ratio plan:	16,890,085	100.0	--	6.2	15.1	13.4	26.2	11.3	12.1	2.3	1.5	3.1	8.8
Alabama 4/	1,353,366	100.0	--	--	14.1	7.4	31.0	15.8	2.3	4.1	1.8	23.5	--
Delaware	359,013	100.0	--	--	--	--	58.4	17.8	1.2	2.0	2.2	1.8	16.7
Illinois	7,581,844	100.0	--	5.1	6.3	9.2	22.7	14.2	13.9	4.3	3.0	2.5	18.9
Oklahoma	1,012,144	100.0	--	--	--	--	61.1	16.2	22.7	--	--	--	--
Texas 4/	4,779,770	100.0	--	13.9	34.1	18.4	17.4	5.2	11.0	--	--	--	--
Virginia	1,803,948	100.0	--	--	13.8	32.5	34.6	8.1	11.0	--	--	--	--
Benefit-ratio plan:	14,093,800	100.0	--	.2	--	10.0	13.9	25.9	1.8	13.1	4.4	3.9	26.8
Florida 4/	2,288,420	100.0	--	--	--	--	67.8	15.6	1.2	15.5	--	--	--
Maryland	1,882,452	100.0	--	--	--	--	10.8	31.9	--	16.0	5.0	3.5	32.9
Minnesota 5/	1,863,297	100.0	--	--	--	71.7	2.7	1.1	--	24.5	--	--	--
Pennsylvania 5/	7,700,224	100.0	--	--	--	--	--	34.2	2.0	9.6	6.9	6.2	41.0
Vermont	198,183	100.0	--	--	--	21.0	56.5	8.0	14.5	--	--	--	--
Wyoming 5/	161,224	100.0	--	13.6	--	22.5	30.1	9.8	23.9	--	--	--	--
Payroll variation plan: 3/	1,340,811	100.0	--	--	--	--	54.6	33.0	2.8	1.7	3.2	3.2	1.6
Alaska	215,586	100.0	--	--	--	--	20.0	20.0	--	10.3	19.7	20.1	10.0
Mississippi	631,367	100.0	--	--	--	--	33.0	61.2	5.8	--	--	--	--
Utah	493,858	100.0	--	--	--	--	97.4	2.5	.1	--	--	--	--
Washington 3/	--	--	--	--	--	--	--	--	--	--	--	--	--
Compensable-separation plan:	2,145,877	100.0	--	--	--	--	32.1	60.6	7.4	--	--	--	--
Connecticut	2,145,877	100.0	--	--	--	--	32.1	60.6	7.4	--	--	--	--
Payroll variation and reserve plan:	11,412,720	100.0	--	--	--	--	--	23.7	6.5	12.4	11.6	45.8	--
New York 5/	11,412,720	100.0	--	--	--	--	--	23.7	6.5	12.4	11.6	45.8	--
Payroll variation and benefit ratio plan:	287,922	100.0	--	--	22.7	24.4	22.1	.8	30.1	--	--	--	--
Montana 5/	287,922	100.0	--	--	22.7	24.4	22.1	.8	30.1	--	--	--	--

1/ Classified by type of plan in effect at end of 1962.
2/ All rated accounts; excludes accounts newly subject after State cut-off dates for preparation of reports.
3/ Totals exclude the four States which did not assign employers any reduced rates for 1962 rate year: Oregon, Rhode Island, and West Virginia under reserve-ratio plan, and Washington under payroll variation plan.
4/ For Alabama, Arizona, Florida, Georgia, South Carolina, and Texas, data exclude newly qualified employers assigned reduced rates after computation date.
5/ Includes effects of voluntary contributions made toward credit for 1962 rates.
6/ Less than 0.05 percent.

factor for assigned rates rather than employer experience with unemployment. In Nevada, for example, the tax schedule in effect provided for rates ranging from 0.1 percent to 2.7 percent. Taxable wages, however, were not fairly well distributed within this range of tax rates. Wages were not only bunched at the 2.7 percent maximum rate (44.3 percent), but there was also a heavy concentration at the 1.2, 1.5, and 1.8 percent rates (28.6 percent) and at the 2.1 and 2.4 percent rates (26.0 percent). A more even spread in taxable wages by contribution rate is here restricted by the limitations on maximum rate and on the tax base. By contrast, North Dakota shows a more balanced distribution of taxable wages by tax rate since the maximum rate is set at 4.2 percent. A low maximum rate, however, need not necessarily cause the imbalance that has been indicated. A State with relatively low cost rates (Nebraska, for example) can, of course, gear its tax yield to a lower level than would otherwise be required, and can achieve an equitable distribution of taxable wages with a 2.7 percent maximum tax rate.

A number of States had a substantial percentage of taxable wages that were taxed at the maximum (ranging from 2.7 percent to 4.5 percent), as follows:

State	Percent of taxable wages taxed at maximum rate	Maximum rate (percent)
Nevada	44.3	2.7
Michigan	40.5	4.5
Pennsylvania	41.0	4.0
Louisiana	34.6	2.7
New York	31.1	4.2
Montana	30.1	2.7
California	29.8	3.5
Maryland	28.3	4.2
Ohio	27.3	3.2

The percentage of taxable wages taxed at the minimum rates varied considerably from State to State. Minimum rates varied from 0 to 2.1 percent. A zero rate was assigned in the seven States listed below:

State	Percent of taxable wages taxed at 0 rate
South Dakota	41.4
Iowa	27.7
Hawaii	27.0
Wisconsin	18.7
Missouri	15.9
Colorado	4.0
Kansas	2.7

Noncharged Benefits

Among the 32 States using the reserve-ratio system, 8 reported 20 to 36 percent of total benefit payments as not charged to individual employers; an additional 11 States reported 10 to 19 percent in this category (table 4). These noncharged benefits become pooled costs and are charged to the system as a whole.

The six benefit-ratio States had noncharged benefits ranging from 3.8 percent (Pennsylvania) to 29.4 percent (Maryland). Montana, which operates under a combined payroll variation and benefit ratio, had the highest proportion of benefits noncharged (41.7 percent). The six States which operate under the benefit-wage-ratio experience-rating formula and report as noncharged the "benefit wages" (all wages used as a basis for drawing benefits) had from 6.0 percent to 24.9 percent of their benefit wages noncharged.

1963 Legislative Developments

In 1963, when almost all State legislatures met, amendments relating to the financing and experience-rating provisions of unemployment insurance were enacted in 18 States. Some of the legislative changes enacted are types of remedial action that have been taken, for the most part, only in recent years. Among these were increases in the taxable wage base in five States: Three States (Idaho, Michigan, and Vermont) increased the amount of wages on which contributions are based from $3,000 to $3,600; one State (Tennessee), from $3,000 to $3,300; and an additional State (Utah) increased its tax base from $3,000 to $4,200. Altogether, 14 States now have a tax base above the $3,000 limit provided in the Federal Unemployment Tax Act.

A more recent continuing legislative trend has been the practice of increasing the maximum possible rates to provide greater equity in the sharing of benefit costs. In 1963, 10 States increased maximum tax rates above 2.7 percent, bringing to 33 the number in this category; 22 of these have a maximum rate of 4.0 percent or higher, with the highest set at 7.2 percent.

Another recent trend in legislative developments in the States is the addition of graduated above-standard rates for employers with "negative balances." This provision, enacted in three States (Michigan, New Hampshire, and New York), serves to reduce inequities in the tax burden among

Table 4. Noncharged Benefits During 12 Months Preceding Computation Date for 1962 Rate Year, by Experience-Rating Plan and State

Type of plan and State 1/	Date 1962 rate-year began	Computation date	Benefits paid in 12 months preceding computation date 2/ (amount in thousands)		
			Total Amount	Noncharged	
				Amount	Percent of total
Reserve-ratio plan:					
Arizona	January 1	July 1, 1961	$12,491	$2,747	22.0
Arkansas	April 1	December 31, 1961	16,136	3,241	20.1
California	January 1	June 30, 1961	408,064	53,928	13.2
Colorado	...do...	July 1, 1961	19,214	670	3.5
Dist. of Col.	...do...	June 30, 1961	6,259	61	1.0
Georgia	...do...	December 31, 1961	40,223	4,585	11.4
Hawaii	...do...	December 31, 1961	6,189	2,022	32.7
Idaho	...do...	June 30, 1961	10,398	1,984	19.1
Indiana	...do...	June 30, 1961	78,324	0	--
Iowa	...do...	October 1, 1961	18,533	5	(3/)
Kansas	...do...	June 30, 1961	21,639	3,084	14.3
Kentucky	...do...	December 31, 1961	38,600	4,095	10.6
Louisiana	...do...	June 30, 1961	43,525	697	1.6
Maine	July 1	December 31, 1961	15,248	3,260	21.4
Massachusetts	January 1	September 30, 1961	142,534	26,920	18.9
Michigan	...do...	June 30, 1961	223,884	734	.3
Missouri	...do...	June 30, 1961	51,584	4,912	9.5
Nebraska	...do...	December 31, 1961	9,406	2,250	23.9
Nevada	...do...	June 30, 1961	8,016	1,708	21.3
New Hampshire	July 1	December 31, 1961	8,435	759	9.0
New Jersey	...do...	December 31, 1961	142,729	17	(3/)
New Mexico	January 1	June 30, 1961	11,440	2,369	20.7
North Carolina	...do...	August 1, 1961	39,764	5,686	14.3
North Dakota	...do...	December 31, 1961	5,058	469	9.3
Ohio	...do...	July 1, 1961	300,835	1,087	.4
Oregon	...do...	June 30, 1961	39,719	3,140	7.9
Rhode Island	...do...	September 30, 1961	20,627	--	--
South Carolina	...do...	July 1, 1961	16,494	5,969	36.2
South Dakota	...do...	December 31, 1961	2,672	393	14.7
Tennessee	July 1	December 31, 1961	42,987	5,098	11.9
West Virginia	January 1	June 30, 1961	32,728	4,015	12.3
Wisconsin	...do...	June 30, 1961	66,877	10,646	15.9
Benefit-wage ratio plan: 2/					
Alabama	April 1	December 31, 1961	166,995	10,037	6.0
Delaware	January 1	October 1, 1961	60,472	5,399	8.9
Illinois	...do...	June 30, 1961	860,517	---	--
Oklahoma	...do...	December 31, 1961	97,287	17,923	18.4
Texas	...do...	October 1, 1961	434,028	108,143	24.9
Virginia	...do...	June 30, 1961	132,849	10,978	8.3
Benefit-ratio plan:					
Florida	...do...	December 31, 1961	43,683	5,794	13.3
Maryland	July 1	March 31, 1961	49,334	14,511	29.4
Minnesota	January 1	June 30, 1961	45,249	10,273	22.7
Pennsylvania	...do...	June 30, 1961	346,656	13,047	3.8
Vermont	...do...	December 31, 1961	6,267	1,033	16.5
Wyoming	...do...	June 30, 1961	6,169	1,415	22.9
Payroll variation plan:					
Alaska 4/	...do...	June 30, 1961	--	--	--
Mississippi 4/	January 1	June 30, 1961	--	--	--
Utah 4/	...do...	January 1, 1961	--	--	--
Washington 4/	June 30	January 1, 1961	--	--	--
Compensable-separation plan:					
Connecticut 4/	January 1	June 30, 1961	--	--	--
Payroll variation and reserve ratio:					
New York	...do...	July 1, 1961	486,212	4,628	1.0
Payroll variation and benefit ratio plan:					
Montana	...do...	June 30, 1961	11,943	4,981	41.7

1/ Classified by type of plan in effect at end of 1962.
2/ For experience rating purposes; benefit wages (all wages used as a basis for drawing benefits) used in the six benefit wage-ratio States, benefit payments used in others.
3/ Less than 0.05 percent.
4/ Charging of benefits not applicable.

employers by requiring employers with high cost experience (the deficit-account employers) to pay a larger share of their benefit costs.

Finally, measures were enacted that relate to the type of financial indicators used to measure reserve fund adequacy. These relate to the use of total wage ratios (rather than taxable wage ratios) for signaling the suspension of reduced rates or to invoke higher tax schedules (Arkansas, Utah, and Vermont). Reserve adequacy measures and other trigger points for alternative schedules which use ratios (benefits and reserves) expressed in terms of total wages, rather than of taxable wages, can best maintain their effectiveness over time, since changes in total wages are more closely related to changes in potential liabilities.

Summary

The data presented here on experience-rating operations in the States encompass many aspects, some intricate, of the financial structure of the systems, and indicate the net effects of the operations of the provisions in the State laws. While State comparisons of these data must often take into account factors that do not apply equally among all States, they highlight significant differences in some of the more important elements of experience rating and also provide the basis for further investigation of these differences.

One must therefore look to the specific provisions of the State laws to extend the analysis toward a more meaningful evaluation and interpretation. In future articles, analyses along these lines may be undertaken, and these may proceed in either of two ways. The first would be an intensive examination of a substantive element (or elements) in experience rating that has implications in the financing of the program, as, for example, negative employer balances. The other approach would be an analysis involving many elements and oriented towards an evaluation of one or several States' operations as a whole.

Issues Reflected in Recent Appeals Decisions

Functional Integration and the Labor Dispute Disqualification*

In our complex modern industrial society, with its emphasis on speed and specialization, the "chain manufacturing process" is assuming ever-increasing significance. Under this process, an unfinished product passes through successive production units in a plant until it is completed at the final production unit. From this system has evolved the multiplant chain process of manufacture whereby parts are made at a number of plants and are then sent to the final plant for assembly. The various plants in the chain are sometimes near each other but often they are hundreds or even thousands of miles apart. However, the plants in the chain are functionally integrated and are dependent upon each other for work. If one plant is unable to operate, others in the chain have to suspend production. Such economic interdependence is not limited to manufacturing but may also be found in other types of business enterprises with establishments at different locations. Typical examples are transportation companies (railroads, bus companies, and airlines), telegraph companies, and large multistore retailing concerns.

Assume that one of the operating units essential to the continuance of the operation of all of the others is unable to function as a result of a strike, and that substantially all of the employees in the remaining units are laid off because of the interrupted flow of materials or services from the struck unit.

Whether or not unemployment insurance benefits are payable to the workers in the plants which

*Prepared in Division of Determinations and Hearings, Unemployment Insurance Service, BES.

are not directly involved in the strike is, and has been for a long time, presenting complex problems.

Some States (Connecticut, Michigan, North Carolina, Oregon, Texas, and Idaho) have attempted to solve the problem by statutory changes.

In most States the labor dispute disqualification provision follows closely the Social Security Board's original draft bill, providing, in part, that:

> * * * An individual shall be disqualified for benefits * * * for any week with respect to which * * * his total or partial unemployment is due to a stoppage of work which exists because of a labor dispute at the factory, establishment, or other premises at which he is or was last employed * * *.

Most of the remaining States substitute the words "labor dispute in active progress" for the words "stoppage of work which exists because of a labor dispute" but almost all of them retain the clause "at the factory, establishment, or other premises at which he is or was last employed."

Thus, as a general rule, a labor dispute which renders a claimant ineligible for unemployment insurance benefits must be one which causes a stoppage of work or is in active progress *at the factory, establishment, or other premises at which the worker is or was last employed.* In the event of a strike at a unit of a business which is functionally integrated with other units of the business of the employer, the question arises as to whether all of the operating units constitute a separate or single factory, establishment, or other premises within the meaning of the statute.

Some of the decisions turn principally on the relation that the work performed in the struck plant would bear to the continuance of operations in the other plants. In the case of *Herbert Carmack, Jr.* v. *Industrial Commission* (New York Supreme Court, App. Div., July 30, 1963, 19 App. Div. (2d) 766, July 30, 1963, CCH-N.Y., Par. 9320), benefits were denied to employees of a plant which was not directly involved in the strike but who were engaged in a functionally integrated production process. The employer, General Motors Corporation, owned and operated two divisions at Tarrytown, N.Y., which were principally engaged in the production of Chevrolet passenger cars. The two divisions were housed in adjacent buildings connected by an enclosed tunnel 60 feet in length which carried a continuous, synchronized conveyor-belt assembly line extending through both buildings. The employees of both divisions were represented by the same bargaining agent, but were authorized to negotiate separate employment contracts with the management of the two divisions, subject to the approval of the International Union. Each division maintained a separate payroll department and employed its own personnel and labor relations director, plant manager, and production superintendent. However, the work of the two plants was thoroughly interwoven. The following quotation from the Court's decision shows the degree of interdependence of the divisions:

> The process of assembling a passenger vehicle began in the Fisher building where its body was progressively developed into a composite whole as the production line traversed the length of the structure. Before this part of the car reached the entrance to the tunnel a Chevrolet employee working in the Fisher building removed therefrom an attached customer's order and by teletype communicated its specifications to stations located along the line in the Chevrolet building. The assembled body then passed through the conveyor tunnel into the Chevrolet building where upon emergence the instrument panel, heater, clock, and wiring were installed. Next a chassis was joined with the body. At subsequent stations, fenders, tires, and other necessary constituent parts were added. As the car approached the end of the assembly line, about 30 employees of the Fisher Body division (15 on each of two shifts) regularly assigned to the Chevrolet building checked the body for defects such as dents and paint blemishes which they had the duty to correct before its final surrender to the Chevrolet division for delivery to the customer. A Fisher division foreman supervised their work; they punched the same time clock used by Chevrolet employees. The speed of the assembly line was controlled to produce 37 cars per hour.
>
> The Tarrytown divisions were not separate legal entities. They operated under a production schedule established by the corporation's central office in Detroit, Michigan * * *.

A dispute arose concerning production standards in the Fisher Body division as a result of which all employees of that division, including those working in the Chevrolet building, struck. The strike caused a shutdown of the entire assembly line and halted the production of passenger cars with a resultant layoff of numerous workmen employed in the Chevrolet division, including the claimants involved in this case.

The factual situation noted in the decision described the complete dependence of Chevrolet's production on that of Fisher Body. The Court concluded that the producing cause of the unemployment of the Chevrolet employees was an "industrial controversy in the establishment in which the claimants were employed." Whether or not

functional integration alone would have supported this finding is not completely established since the Court in its summary emphasized the additional fact that some of the striking Fisher Body employees were regularly working in the Chevrolet building.

The issue has been a subject of labor-management contract provisions. A contract provision became a principal consideration in a Michigan case. In *General Motors Corporation (Buick Motor Division) and Fisher Body Divison* v. *Appeal Board and Robert H. Stinson* (No. 21797, May 6, 1963, CCH-Mich., Par. 8955), the Michigan Circuit Court of Ingham County denied benefits to claimants in Michigan who were unemployed as a result of a strike at another General Motors plant in Ohio. The latter plant manufactured essential components without which the Michigan plant could not operate. This decision was based largely upon the fact that the collective bargaining agreement provided that an authorized strike in one plant which resulted in an interruption in the flow of material or services to operations in another plant would be considered an authorized strike in the latter plant. The Court reasoned that "if the whole establishment is on an authorized strike and subject to a labor dispute, it follows that each department and unit is likewise on authorized strike and involved in a labor dispute." This decision was based upon statutory provisions prior to the revision of the labor dispute provisions during the State's most recent legislative session. There have been no definitive cases interpreting this provision since its change. It may be noted that Michigan has a history of intense litigation of this issue.[1] In some cases, functional integration alone has not been considered sufficient to support a conclusion that the various units constitute one and the same factory, establishment, or other premises.

The Ohio Supreme Court recently commented on functional integration in the decision of *Abnie* v. *Ford Motor Co. and Guna* v. *Ford Motor Co.* (Nos. 37833, 37834, Nov. 20, 1963, CCH-Ohio, Par. 8323). The Court looked to the geographical location of the plants as the main criterion for determining whether or not interdependent plants of the same company constituted a single establishment for the purposes of the statute. The employer, Ford Motor Company, operated plants throughout the country for the production of individual parts to be incorporated into the finished vehicle at assembly plants. The claimants were employed at one or the other of the company's forging plants at Hamilton or Canton, Ohio, where they produced castings. A labor dispute arose at the employer's River Rouge and Dearborn, Mich., plants resulting in a strike which closed these two plants. As a result, the demand for the parts produced in the Hamilton and Canton plants decreased and the claimants were laid off.

The employer contended that even though there was no dispute at the actual plant where the claimants were employed, the Ford Motor Co. is an integrated unit which constitutes an "establishment" within the meaning of the law, and therefore a dispute at any of the employer's plants which would affect production at another plant would constitute a labor dispute at the latter plant as well.

However, the Court rejected this contention. In its opinion the Court stated:

> The sole question presented in this case is whether appellees' unemployment arose as a result of a labor dispute at the "factory, establishment or other premises" at which they were employed. * * *
>
> This question requires an interpretation of the meaning of the word, "establishment," in conjunction with this act. * * *
>
> The word, "establishment," has a clear and natural meaning as a distinct physical place of business. In other words, "establishment" as used in this act connotes a place of employment. The fact that, as here, an employer conducts a highly integrated business composed of individual units spread over many States with the operation of each unit interdependent on the operation of the other units does not constitute such business an "establishment" within the meaning of this act.
>
> To hold as urged by appellant would render superfluous the use by the General Assembly of the words, "factory and other premises," in conjunction with "establishment," since the word, "establishment," itself would include factories and other premises.

Quoting with approval from the case of *Ford Motor Co.* v. *Director of Division of Employment Security*, 326 Mass., 757, 96 N.E. (2d) 859, the Court added:

> A "factory" has been defined as a building or group of buildings, usually in the same immediate neighborhood, devoted to the manufacture of articles or commodities. * * * But, here again, the word "establishment," as normally used in business and in government, means a distinct physical place of business. * * * The statute, accordingly, impresses us as laying stress upon geographical location rather than upon a combination of widely scat-

[1] See "Location of Labor Dispute and Its Effect on Claimant's Establishment," in *The Labor Market and Employment Security*," March 1959.

tered plants used for the business operations of one employer. We cannot read into Section 25 any provision as to functional integration. If we could, we would not understand on what ground its scope could be restricted to plants used for the business operations of only one employer. The employer's argument rests upon a construction of "establishment" which is so broad as to devour entirely, and leave no additional scope for the words "factory * * * or other premises." We think that "establishment" is meant to embrace premises, not aptly described as a factory, where labor is performed—and without attempting to name them all—such as stores, banks, theaters and other places of amusement, laundries, garages, hotels, restaurants, office buildings, shipyards, newspaper and printing offices, insurance buildings, repair shops, telephone and telegraph offices, and barber and hairdressing shops.

It might be noted that in this case the Court is applying the generally accepted theory that the legislature will not include unnecessary or meaningless words in a statute, and when they added "factory and other premises" to the term "establishment," each term was for a specific purpose and had a particular meaning. Therefore, if the one term "establishment" would also cover the terms "factory and other premises," the latter two terms would have been omitted from the statute.

A North Carolina decision demonstrates the application of one type of statutory provision which broadened the locale of the dispute. In the *Matter of J. K. Abernathy and Eastern Airlines, Inc.* (Supreme Court of North Carolina, Spring Term, 1963, No. 233, April 10, 1963, CCH-North Carolina Par. 8440), there was a strike of the flight engineers who represented 575 of more than 17,900 employees, who were employed in 26 States and Mexico City, Puerto Rico, Bermuda, and Canada. The services of flight engineers were required on four engine and jet aircraft, which represented about 65 percent of the airline's business. The remaining 35 percent consisted of two-engine planes which were operated without the services of flight engineers. However, these smaller planes were used primarily as "feeder" lines and without the larger aircraft the need for the smaller planes diminished considerably. Consequently, almost all of the employees in all areas covered by the airline were laid off and operations were curtailed substantially. No striking employees were stationed in North Carolina but all of the operations in that State were completely suspended as a result of the strike. At the time of this situation, the State's labor dispute provision had been revised to extend the disqualification to employees in that State if there unemployment was due to a labor dispute at any other place owned by the employer which supplies materials or services necessary to the continued operations of the premises at which the claimants were last employed. The statute applied to disqualify the North Carolina workers.

Functional integration was the subject of brief discussion in a New Mexico Supreme Court decision. In the case of *R. L. Wilson, Robert E. Groom and Lloyd F. Grainslad* v. *ESC and Kennecott Copper Corporation, Chino Mines Division* (No. 6962, April 29, 1963—CCH, New Mexico, Par. 8159), this facet of the case was under review to determine if certain claimants were subject to a provision that would relieve from the labor dispute disqualification workers who were not interested in or participating in the dispute that idled them or a member of the same grade or class of workers who were interested in or participating in the dispute. The Court, in that portion of the decision relating to this relief from the disqualification provision, stated:

The Commission applied "integral functioning" as one of the basic tests of grade or class under the New Mexico Unemployment Compensation Act. The integration test has been rejected in construing the meaning of "establishment." *Tennessee Coal, Iron & R. Co.* v. *Martin*, 251 Ala. 153, 36 So. 2d 547, and in *Park* v. *Appeal Board of Michigan Employment Security Commission*, 355 Mich. 103, 94 N.W. 2d 407, 420, which overruled "integral functioning" as the basic test of the extent of "the establishment" in the Michigan Employment Security Act as applied to *Chrysler Corporation* v. *Smith*, 297 Mich. 438, 298 N.W. 87, 135 A.L.R. 900. Its rejection is equally valid as a basic test of the extent of grade or class.

This court is clearly committed to a liberal interpretation of our unemployment compensation act, so as to provide sustenance to those who are unemployed through no fault of their own and who are willing and ready to work if given the opportunity * * *.

The Court by this rationale reflects one view which looks closely at the intent of the program and bases the determination on the separate circumstances of individuals. It recognizes that labor dispute strategies may vary and that the action of a union may not be made the equally precise responsibility of each member. Other decisions determine "establishment" principally in terms of management's need for efficiently synchronized operations between geographically separated plants. These obviously represent rather widely divergent methods of achieving the statutory intent to pay benefits to individuals unemployed through no fault of their own, and no clear-cut answers appear to have emerged.

Unemployment Insurance Decisions*

Theft From Employer

Colorado.—An $8.15 per day warewasher at a hotel was discharged for violation of a house rule. The claimant alleged that he did not know that the rule prohibited it, but agreed that he had picked up sealed units of crackers and jelly when they were returned to the warewasher area. A Colorado referee decision held that the claimant became unemployed because of theft, and gave him "no award" of benefits. (RD–23421–63, December 24, 1963.) (Under the Colorado law, "no award" determination means that all wage credits prior to the adjudication are cancelled, as well as any already established base period or benefit year.)

Deductible Profits

Illinois.—A 67-year-old employee, involuntarily retired from his employment, became eligible for benefits under an employer's profit-sharing plan. He could have elected to receive a lump sum of $14,488.55. Instead, he chose the option of receiving a monthly payment of $100, which was later to be increased. An Illinois Superior Court decision upheld decisions of the Board of Review, referee, and deputy holding that the payments were "disqualifying income" that was deductible from weekly unemployment insurance payments. Since the payments were due only upon retirement, they constituted "retirement payments" and, since retirement payments were specifically included in the definition of disqualifying income, the unemployment insurance benefit must be reduced by the amount of the profit-sharing payment. (*Andrew Vrtjak* v. *Robert R. Donnelly, Director*, et al., No. 62–S–709, December 31, 1963.)

Altercation

Missouri.—A shop rule against "threatening, intimidating, coercing, or interfering with employees of supervision" was specified as the reason for discharge of an assembly plant maintenance worker after he exchanged words and blows with a foreman. The Missouri Industrial Commission (in a split decision) upheld a referee's decision holding that there was no misconduct. After reviewing conflicting evidence, it was found that during a heated argument the claimant was slapped by the foreman and in turn hit him. Noting that the rule by which claimant was dismissed was reasonable but did not refer to "striking" or "fighting," the decision commented that "In their relations with those under their supervision, employees of supervision should avoid the use of physical force" and found that the acts of the claimant and foreman were spontaneous and not a deliberate or intentional violation of the shop rule by the claimant. (Missouri I.C. 803–63, December 20, 1963.)

Confusion at the Tavern

New York.—A cleaning woman's note to the tavern-owner employer stating she would "not be in again" unless called was the basis for a decision by a New York referee, upheld by the UI Appeal Board, that the issue was voluntary leaving, although the employer also decided to discharge her. On the previous day, after completing her work at about 10 a.m., the claimant remained at the tavern for "approximately four drinks," and refused to remove her dog (which she had brought for protection in the early morning hours she worked) from the tavern. This had led to words with the proprietor's wife and with the proprietor who alleged that the claimant attempted to hit him with a stool. The following morning she left the note. It was held that when she left the note the claimant gave up her job. The decision had noted as a fact that the employer decided to discharge her because she left the note rather than clean the tavern after a busy Saturday night. She was disqualified. (New York Appeal Board, Appeal No. 108,336, December 24, 1963.)

Moves With Husband

Washington.—The Supreme Court of Washington held that a claimant who left work in order to accompany her husband in a move to another city had good cause for voluntarily leaving her

*Prepared in Division of Determinations and Hearings, Unemployment Insurance Service, BES.

work and was not disqualified. "In the absence of a good reason for not so doing, it is the duty of the wife to accompany her husband and live at the home he has selected," stated the Court. In its decision the Court ruled that the trial court, in reversing the previous administrative decisions allowing benefits, had erred in concluding that "good cause" as used in the Washington unemployment insurance law means a cause "attributable to or connected with the claimant's employment" and that "good cause" for termination may include compelling personal reasons. (*In Re Laura G. Bale, Boeing Airplane Co.* v. *Employment Security Division*, Washington Supreme Court, No. 36633, October 10, 1963.)

Executive Advancement

Wisconsin.—Acceptance of employment with a new bank which was to open in a few weeks was not misconduct on the part of a teller when he was discharged for it by the bank where he had worked for 15 years, according to a Wisconsin Circuit Court Decision. Failure to notify the employer of his new employment and "pirating" of its employees were the basis of the employer's allegation of misconduct. The Court stated that an employee is under no obligation to refrain from seeking new or better employment or to give notice of his intention to terminate unless the contract provides otherwise. The Court also held that as to the suggestion made to a fellow employee to apply for a position with the new bank, it was reasonable to assume that he was acting out of friendship for the fellow employee and not in the interest of the competitor bank. (*Citizens State Bank & Trust Co.* v. *Harold H. Telschow and Industrial Commission of Wisconsin*, Wisconsin Circuit Court, Dane County, December 30, 1963.)

Trends in the Economy*

On balance, the Nation's economy moved up in January and early February—furthering a trend that prevailed during most of 1963. As indicated by retail sales, consumer buying remained at high levels, with auto sales continuing to set records. Steel demand was also high and rising further, reflecting a surge of new orders from rail freight-car builders and construction steel fabricators on top of persistently heavy orders from auto and appliance companies. Total employment was the highest recorded for January, but unemployment showed no improvement from December or from 1963 as a whole. The seasonally adjusted unemployment rate in January, at 5.6 percent, was virtually unchanged from the previous month and from January 1963.

For 1963 as a whole, most sectors of the economy achieved record levels. The strong $11.3-billion rise in *gross national product* in the final quarter of 1963 pushed the annual rate for that quarter to $600 billion—an increase of about $100 billion over the level at the beginning of the current expansion in early 1961. For all four quarters of 1963, GNP totaled $585 billion, some $30 billion, or 5.4 percent, more than in 1962. Well over half of the over-the-year rise was attributable to an increase in consumer expenditures.

Consumers were still buying heavily, according to preliminary reports from the Bureau of the Census, which indicated that *retail sales* in January held at about the record volume (seasonally adjusted) of December. The December figure of $21.1 million (revised figure) was up from November by nearly $500,000—the largest month-to-month rise during the year. For all of 1963, retail sales totaled $247 billion, compared with $235 billion in 1962. Over half of the rise occurred in sales of durable goods, with special emphasis on auto sales. December deliveries of domestic-built and imported cars brought total sales for the year to about 7.7 million units; in 1955 (the previous best sales year), somewhat fewer than 7.5 million new cars were sold. Sharply increased spending occurred also for other durable goods items—furniture, refrigerators, washing machines, and color television.

Accounting in large part for the 1963 expansion in spending was the steady rise in consumer incomes. *Personal income* for the year totaled $463 billion—almost $21 billion above 1962. Dis-

*Prepared in the Office of Program Reports and Research, Administration and Management Service, BES.

posable income (after taxes) showed a rise of $18.2 billion. Savings as a percent of disposable income edged down slightly over the year—from 7.6 to 7.3 percent.

The record levels of activity during 1963 were encouraging to businessmen as *corporate profits* moved up to about $51 billion—some $4 billion higher than in 1962. The favorable situation was reflected in an increase of 4.7 percent from the preceding year in *new plant and equipment expenditures* (according to the surveys of the Department of Commerce Securities and Exchange Commission and the McGraw-Hill Publishing Company made in the fall of 1963). The surveys indicated that the annual rate of expenditures for the first quarter of 1964 will remain at the $40.75 billion level—the October-December figure; however, a more recent survey by McGraw-Hill shows that a number of firms have revised upward their 1964 spending plans. Manufacturers as a group boosted their capital spending plans 15 percent from 1963's level instead of the 8-percent increase planned last fall. Among the large revisions are those from auto, trucks, and related parts makers—up 48 percent to $1.5 billion, instead of the 10-percent increase budgeted earlier; petroleum and coal products producers—an increase of 8 percent to some $3.1 billion from a 2-percent gain orginally programed; and machinery makers—who plan a rise of 12 percent to $1.3 billion instead of a 5-percent increase. Among nonmanufacturers, the most striking shift was registered by the railroads: they have programed a 15-percent increase in capital outlays to $1.2 billion, instead of a 14-percent cut.

Industrial production in January (when final figures become available) will probably show a rise from December, according to the weekly production figures for steel and autos. During the month, steel output consistently edged up, and, for the week ending February 1, totaled 2,217,000 tons—about 23 percent more than in the last week in December, and 18 percent ahead of the year-earlier total. Steel orders continued to rise as a result of increasing industrial activity. January orders, about 10 percent ahead of December, were outpacing current production and shipments. Auto makers produced a record number of cars for January; at 743,800, the number was nearly the same as in December, but well ahead of the 687,500 turned out a year earlier. Assemblies are scheduled to show a small decline in February, partly reflecting fewer working days. However, the output planned for February, at 655,600, is 9 percent above the February 1963 figure.

The index for all industrial production (1957–1959=100) averaged 124 in 1963, compared with 118 for 1962. In the first 6 months of 1963, the increase in production averaged more than 1 percentage point a month—but in the final 6 months, the combined rise amounted to only 1.4 points.

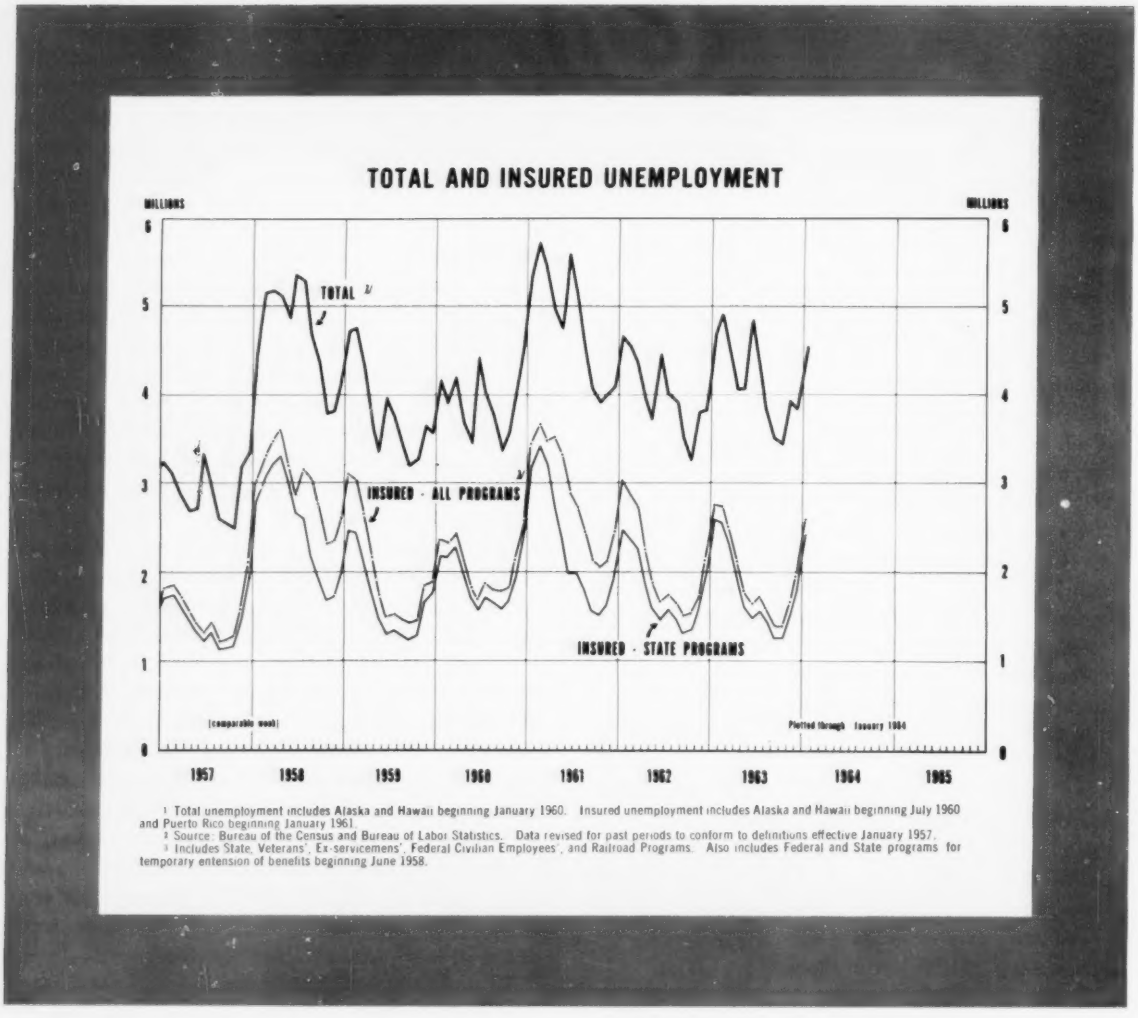
Employment

Total employment, at 67.2 million in January, was down less than is usual for this time of year. Most of the 1.4 million decline from December was in the nonfarm sector, reflecting the layoff of temporary Christmas-season workers,[1] further cutbacks in construction activities, and inventory layoffs in a wide number of industries. Agricultural employment, at 4.0 million, was virtually unchanged over the month.

For 1963 as a whole, total employment averaged nearly 69 million per month—a million more than in 1962 (taking into account adjustments made in April 1962 by the introduction of the 1960 Census data into the estimation procedure). Nonfarm employment advanced steadily throughout most of the year, while farm employment continued its long-term downtrend. During the first half of 1963, a strong uptrend in factory employment was led by gains in the steel and auto industries, and there was continued employment expansion in State and local governments, trade, finance, and other services. Gains in payroll employment continued after midyear, in contrast to 1962, but most of the growth was in the service sector.

Manufacturing employment showed an average increase of about 175,000 over the year, and the gain was almost entirely in the durable goods sector. A large expansion in the transportation equipment industry brought its employment to the highest annual level since 1959. Two other industries in the major metals and metal-using group—fabricated metals and machinery—showed significant employment advances. Combined, these three major industry groups accounted for nearly three-fourths of the total 1963 factory job gain. The primary metals industry showed considerable strength during the first half of 1963, in response to a buildup of steel-users' inventories.

[1] Not necessarily out of the labor force; in depressed areas they are still looking for work, and are therefore in the labor force.



[1] Total unemployment includes Alaska and Hawaii beginning January 1960. Insured unemployment includes Alaska and Hawaii beginning July 1960 and Puerto Rico beginning January 1961.
[2] Source: Bureau of the Census and Bureau of Labor Statistics. Data revised for past periods to conform to definitions effective January 1957.
[3] Includes State, Veterans', Ex-servicemens', Federal Civilian Employees', and Railroad Programs. Also includes Federal and State programs for temporary extension of benefits beginning June 1958.

Despite the cutback in the latter part of the year, employment in this industry at yearend was still about 40,000 higher than in December 1962.

In the nondurable manufacturing industries, total employment in 1963 remained virtually the same as in 1962. However, there were offsetting movements among the industry components. Job reductions in food processing textiles, petroleum, and leather were counterbalanced by gains in chemicals and apparel.

Employment in construction rose by 120,000 during 1963—the most substantial year-to-year increase since 1959. Last year was also the first on record that the industry's job total exceeded 3 million on an annual average basis.

Total Unemployment

Following a contraseasonal decline in the previous month, total unemployment in January moved up by about 700,000 to 4.6 million. The increase was about normal for this time of year. The unemployment rate (seasonally adjusted) was 5.6 percent, compared with 5.5 percent in December and 5.7 percent last January.

As is usual for January, adult workers looking for full-time jobs accounted for virtually all of the over-the-month rise in total unemployment. The seasonally adjusted unemployment rate for adult men was 4.3 percent, the same as that recorded in December. The jobless rates for adult women and teenagers, at 5.5 percent and 14.9 per-

cent, respectively, were fractionally higher than in the previous month. Compared with a year earlier, unemployment this January was lower among adult men, but was up slightly among other workers.

Approximately 1.1 million in January were unemployed 15 weeks or more; almost half of these had been jobseeking for 6 or more months. Both categories of long-term unemployment were almost unchanged from a year ago.

The outstanding characteristic of total unemployment during 1963 was the persistently high volume. This was similar to 1962, although the average volume in 1963, at 4,166,000, was about 150,000 higher than in the prior year. In both years, monthly changes were due almost entirely to seasonal or other temporary developments. The seasonally adjusted rate of unemployment, which had fallen from its recession high of 7 percent in the first half of 1961 to an average of 5.6 percent for all of 1962, continued near this level (5.7 percent) for 1963. The unemployment rates during these past 2 years of sustained economic expansion were about the same as the rate recorded in 1954, a year marked by a business recession.

The 1963 proportions of jobless adult men and teenagers among the unemployed were changed from those in 1962. Unemployed adult men in 1963 accounted for somewhat more than 47 percent of the jobless total, compared with slightly over 50 percent in 1962. Their unemployment rate, averaging 4½ percent in the first 6 months of 1963 (the same as in the last half of 1962), dropped to 4 percent after midyear. In the final 2 months of the year, the rate for adult men returned to 4½ percent. For teenagers, their proportion of the jobless total in 1963 was nearly 24 percent, compared with 20 percent in the prior year. Their rate of unemployment, which had averaged 13 percent in 1962, rose to over 15 percent in 1963 and was higher than the rates recorded in any postwar year except the recession years of 1958 and 1961. Most of the jobless rise for this group between 1962 and 1963 was among those 16 and 17 years old. The proportions of jobless adult women among the unemployed in both 1962 and 1963 were about 29 percent, and their unemployment rates averaged 5½ percent in both years.

Insured Unemployment

Pushed by the usual seasonal occurrences at this time of year, unemployment among workers covered by unemployment insurance programs rose by about one-third in mid-January to a total of 2,425,600. The seasonally adjusted level, at 1.8 million, was virtually unchanged from December, but was 8 percent lower than a year earlier.

The national rate of insured unemployment (not adjusted for seasonality) was 5.8 percent in January, compared with 4.3 percent in the previous month and 6.3 percent last January. As usual for this time of year, the highest State rate was reported by Alaska—16.3 percent. Other high rates occurred in North Dakota (10.5 percent), Washington (10.0 percent), West Virginia (8.6 percent), Vermont (8.4 percent), Montana and New Jersey (8.2 percent each), and Idaho (8.0 percent). Fourteen other States and Puerto Rico reported rates ranging above 6 percent but less than 8 percent. The lowest rates (less than 3 percent) occurred in Colorado, the District of Columbia, Florida, and Virginia.

Only Hawaii and Puerto Rico reported fewer insured jobless than in December. The largest numerical increases were noted in New York (80,300), Pennsylvania (61,600), New Jersey (39,800), California (36,100), Ohio (30,700), and Massachusetts (30,100).

For all of 1963, State insured unemployment was at a weekly average of 1,792,700 [2] and the unemployment rate was 4.3 [2] percent. Both the average volume and rate this year were virtually unchanged from 1962.

Initial Claims Move Down From Turn-of-Year High

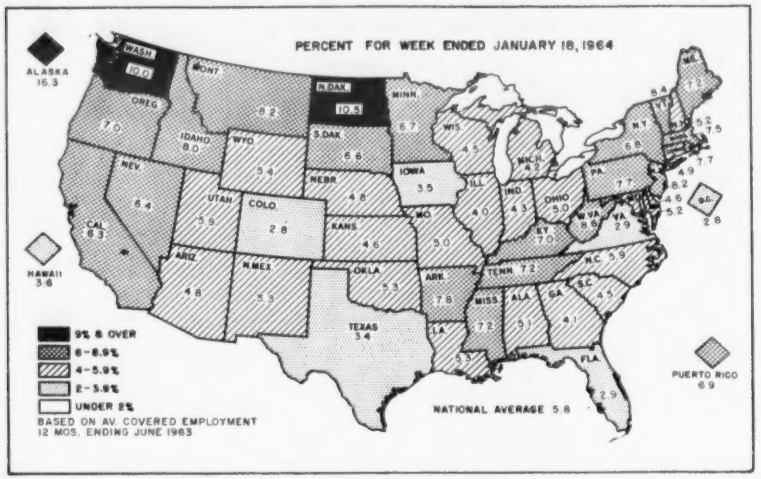
Initial claims under State programs totaled 506,600 during the week ended January 11—the highest weekly number of claims filed since the comparable week a year earlier. This high volume reflected post-Christmas layoffs in trade and services, employment cutbacks for inventory taking, the start of a new quarter's wage credits in most States, and the seasonal lull in the apparel, lumbering, stone-clay-glass, and construction industries. Since the peak period this January, initial claims have been moving down steadily, dropping to 334,000 for the week ended February 1.

For all of 1963, initial claims filed under State programs averaged 296,500 per week; in 1962, the average was 302,000.

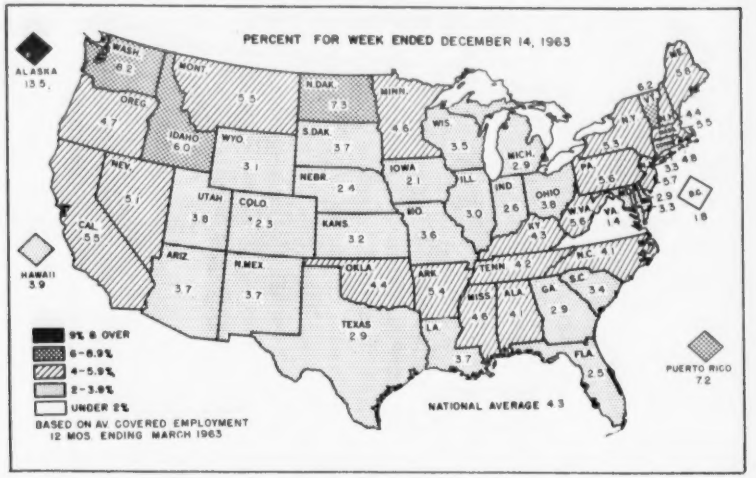
[2] These figures exclude Puerto Rican jobless sugar workers, as data for all of 1963 are not available. For the last 6 months of the year, the average insured unemployment volume for these workers came to 26,200.

STATE INSURED UNEMPLOYMENT AS PERCENT OF AVERAGE COVERED EMPLOYMENT

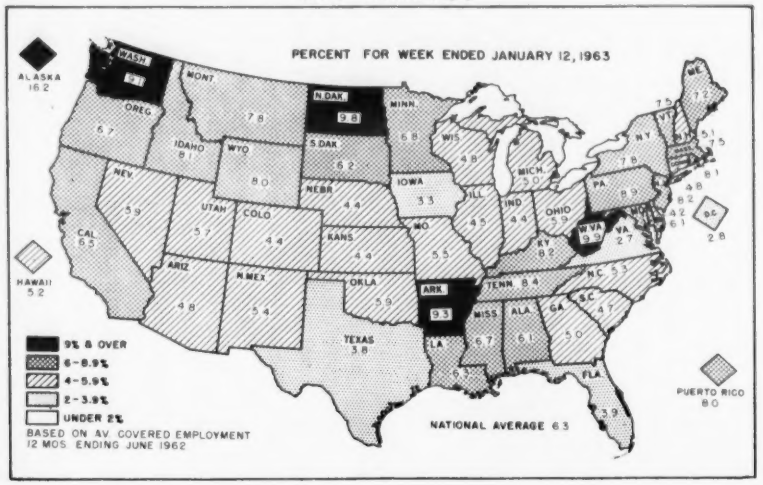
LATEST MONTH



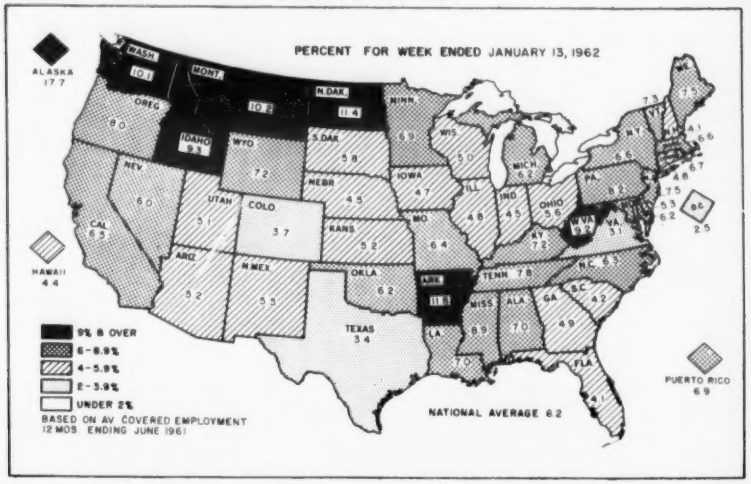
PREVIOUS MONTH



ONE YEAR AGO



TWO YEARS AGO



Unemployment Insurance Activities*

As is usual in January, postholiday job contractions in trade and services, inventory layoffs in a wide variety of manufacturing industries, and further cutbacks in construction activity and other outdoor work caused insured unemployment to rise sharply. Insured joblessness under State programs averaged 2,394,600 per week—21 percent above December, but 8 percent below the year ago figure. The seasonally adjusted level remained at about 1.8 million over the month. For 1963 as a whole, the weekly average of insured unemployment was 1,792,700,[1] representing a rate of 4.3 percent. This average was not significantly different from the 1,783,100 in 1962 when the rate was 4.4 percent. For the first 5 months of 1963, the averages were substantially higher than in the same 1962 period, but in the remaining 1963 months were some 50,000 below year-ago levels. Seasonally adjusted, insured unemployment moved downward during the first half of 1963; in the second half it moved up a little.

Although nonfarm payroll employment, exclusive of government workers, rose about 1 million between the 2 years, insured unemployment remained substantially unchanged from 1962. Factory employment advanced by only about 175,000 over the year, with sizable changes among the industries. Primary metal workers' employment showed gains in the first half of 1963, but edged down in the second half as steel users reduced inventories. However, the level of employment in the steel industry remained higher in the second half than in the same 1962 months. The auto industry had the second highest yearly production total on record, and this output provided additional jobs within the industry, as well as with their suppliers—steel, glass, rubber, and textiles. There were also job gains in chemicals and apparel, and these increases, as well as those in steel and autos, more than offset job losses in food processing, textiles, petroleum, and leather. Employment in contract construction rose by 120,000 in 1963—the most substantial yearly increase since 1959. The industry's job total on an annual average basis exceeded 3 million for the first time on record.

Between December and January, insured unemployment increased under the two Federal programs—by about 5,200 to a weekly average of 39,200 among civilian Federal employees (UCFE program), and by some 13,100 to a 72,700 average for ex-servicemen (UCX program). Compared with a year earlier, insured unemployment for Federal workers was up by 2,500, and among ex-servicemen was 4,300 lower. For 1963 as a whole, insured joblessness averaged 31,500 per week among civilian Federal workers, and 54,800 per week among ex-servicemen, or 2,400 and 5,100, respectively, above the 1962 averages.

In mid-January 1964, the national rate of insured unemployment (not seasonally adjusted) under State programs was 5.8 percent; it was 4.3

*Prepared in the Office of Program Reports and Research, Administration and Management Service, BES.

[1] Excludes data under program for Puerto Rican sugar workers which became effective July 1, 1963. During July–December, insured unemployment for these workers averaged 26,200 per week.

Week ended	Initial claims[1] 1963	Initial claims[1] 1962	Insured unemployment 1963	Insured unemployment 1962
December 7	376,500	368,100	1,748,300	1,824,900
December 14	377,800	443,700	1,811,400	1,977,700
December 21	437,800	411,800	1,876,600	2,005,600
December 28	453,000	455,600	2,248,000	2,332,600
	1964	1963	1964	1963
January 4	447,200	471,100	2,483,600	2,630,200
January 11	506,600	521,800	2,404,500	2,570,200
January 18	414,100	441,400	2,425,600	2,559,900
January 25	372,000	383,500	2,375,900	2,595,300
February 1	334,000	415,800	2,319,000	2,609,700
Weekly averages				
December	414,500	422,200	1,972,300	2,062,700
January	412,000	447,000	[2] 2,394,600	2,590,700

[1] Refers to State programs. [2] Average through week ended February 1, 1964.

Activity [1]	December 1963 Number or amount	Percent change from Nov. 1963	Percent change from Dec. 1962	Cumulative, January–December (in thousands) 1963	Cumulative, January–December (in thousands) 1962
Initial claims [2]	1,864,600	+55.4	+6.7	15,420	15,710
Weeks claimed [2]	8,177,300	+40.4	+4.9	93,222	92,722
Insured unemployment (weekly average)	1,972,300	+27.9	−4.4	1,793	1,783
Beneficiaries (weekly average) [3]	1,523,800	+35.2	+1.5	1,541	1,525
Benefits paid	$232,954,300	+41.2	+8.8	$2,774,669	$2,675,447
Claimant exhaustions [3]	118,600	+25.8	([4])	1,569	1,638

[1] Data relate to State programs only.

[2] Includes agent State claims taken by the Virgin Islands.

[3] Monthly data represent gross amounts; cumulative data represent net amount.

[4] Increase of less than 0.05 percent.

percent in December and 6.3 percent in January 1963. Altogether, 25 States had rates above the national average this January. Alaska reported the highest rate—16.3 percent—followed by rates of 10.5 in North Dakota, 10.0 in Washington, 8.6 in West Virginia, 8.4 in Vermont, 8.2 each in Montana and New Jersey, and 8.0 in Idaho. The District of Columbia and three States—Colorado, Florida, and Virginia—reported rates of less than 3.0 percent.

Initial Claims Down Over the Month and Over the Year

Initial claims, which usually rise between December and January, declined by 2,500 to a weekly average of 412,000—8 percent below the January 1963 figure. For all of 1963, initial claims filed under State programs averaged about 296,000 per week—down from the 302,000 average of 1962. Annual totals were 15.4 million in 1963, and 15.7 million in 1962.

Initial claims filed by ex-servicemen (UCX program) averaged 8,600 per week in January—unchanged from December. However, such claims from unemployed civilian Federal workers (UCFE program) rose by 1,100 from December to a weekly average of 4,400 in January. During 1963, Federal workers' initial claims averaged 3,100 per week, compared with 2,900 in 1962; for ex-servicemen, the 6,600 weekly average in 1963 was 200 above the 1962 figure.

Insured Unemployment Up in Almost All States in January

Between mid-December and mid-January, the volume of insured unemployment rose in all States except Hawaii and Puerto Rico. The largest increases occurred in New York (80,300), Pennsylvania (61,600), New Jersey (39,800), California (36,100), Ohio (30,700), and Massachusetts (30,100). In eight other States—Illinois, Indiana, Maryland, Michigan, Minnesota, Missouri, North Carolina, and Tennessee—increases ranged from 13,000 to 28,000.

In *New York*, a 30-percent rise from December brought the State's January total of insured unemployment to 347,500. Nonmanufacturing industries (primarily construction, trade, and services) accounted for somewhat over three-fifths of the advance. In manufacturing, the higher unemployment level reflected seasonal layoffs in apparel and textile plants and increased joblessness in the electrical machinery industry. For 1963 as a whole, insured unemployment in New York averaged 264,000 per week—a 9.0-percent rise over the 1962 average.

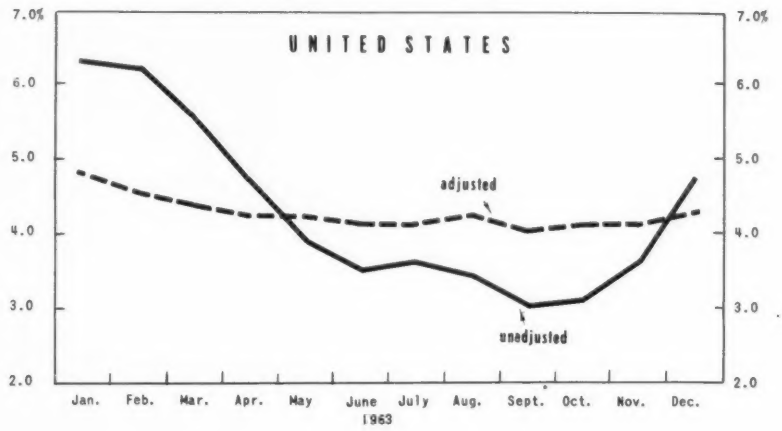
Pennsylvania's insured unemployment volume, at 225,400 in mid-January, was up 37.6 percent from December. About 27,500, or nearly half the rise, was due to increased unemployment among construction workers. In manufacturing, a sizable part of the increase was attributed to added joblessness—some 10,000—in apparel plants. During 1963, the weekly average of insured unemployment in this State amounted to 169,300, a 6.5-percent decrease from 1962.

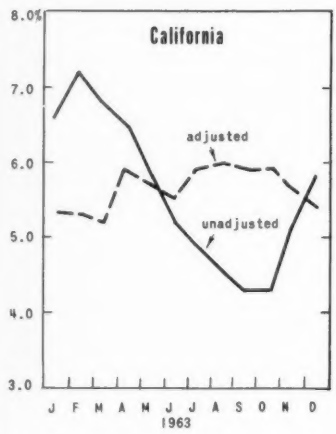
A 43-percent increase in the volume of insured unemployed workers in *New Jersey*—somewhat more than usual for this time of year—brought the State total for mid-January to 131,600. Some 16,000 of the rise was among factory workers, and unemployed construction workers accounted for another 16,000. Between 1962 and 1963, insured joblessness in New Jersey rose by 7.5 percent to a weekly average of 86,400.

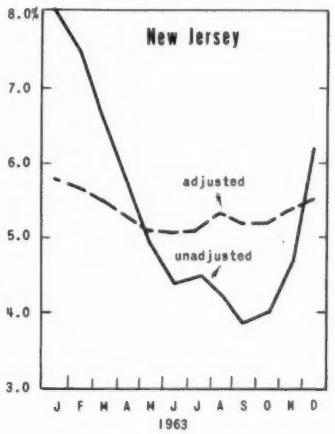
An over-the-month rise of 16 percent in *California* brought that State's total to 263,300 in mid-January. This rise, about usual for the time of year, resulted mainly from increased joblessness in the apparel, food processing, construction, and trade industries. For all of 1963, insured unemployment in California—at a weekly average of 227,600—was up about 9 percent from the preceding year.

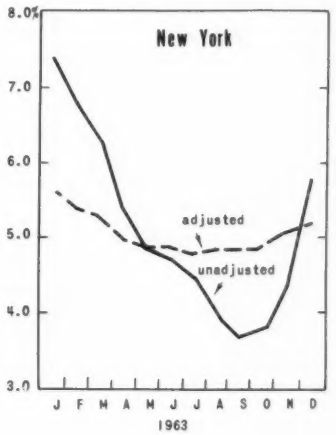
Unemployment Insurance Rates, 1963

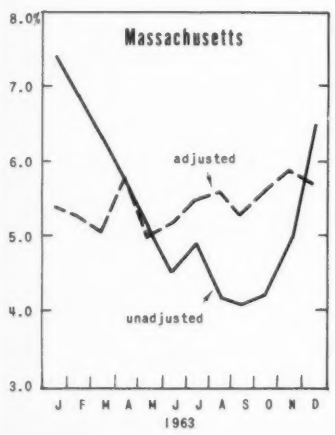
Unadjusted and Seasonally Adjusted

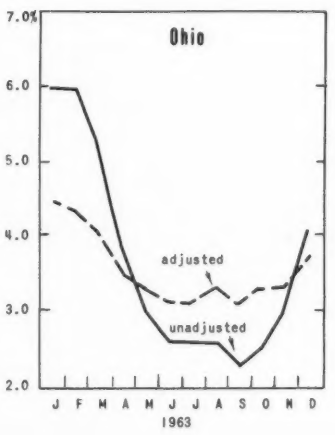


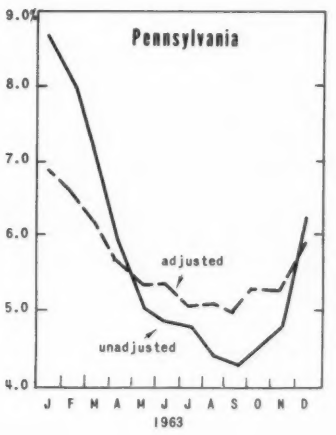












Increased joblessness in construction and trade accounted for most of the 34-percent rise in *Ohio's* insured unemployment between mid-December and mid-January. In manufacturing, the only sizable rise in unemployment was among stone-clay-glass workers. Joblessness declined among primary metals workers. Ohio's insured unemployment in 1963 was at a weekly average of 87,800—9 percent below the 1962 level. The drop was largely due to fewer jobless among the primary metals, construction, and trade workers.

Massachusetts reported a 35-percent over-the-month rise in insured unemployment—bringing the January 1964 total to 115,000. More than one-half of the rise was among construction and trade workers; the remainder of the increase was scattered among workers from a wide variety of industries. Between 1962 and 1963, average weekly insured unemployment in the State rose by about 13 percent to 83,700.

The accompanying chart indicates the trend of insured unemployment rates, actual and seasonally adjusted, for the Nation as a whole, and these six States during 1963.

Claimant Exhaustions Rise in January

An estimated 1.8 million jobless workers dropped out of the Nation's unemployment insurance program during January 1964. This compares with 1.1 million in December and 1.8 million in January 1963. Some 139,000, or 8 percent, of those who ceased filing this January had exhausted their benefit rights. Of the remainder, some may have been recalled to work, found new jobs, or left the labor market, while others were disqualified from receipt of benefits.

During all of 1963, approximately 1,568,100 persons exhausted their benefit rights, compared with 1,638,400 in 1962.

Jobless Benefits Show Marked Increase

In December 1963, approximately $254 million in benefits was paid to insured jobless workers under all regular unemployment insurance programs, compared with $181 million in November and about $237 million a year earlier. Benefits paid under the State programs in December climbed $68 million from November to nearly $233 million. Under the railroad program, benefits amounted to $8.6 million, and under the two Federal programs, an aggregate of $13 million was disbursed.

For 1963 as a whole, total benefits came to a little over $3 billion—some $91 million more than in 1962. The 1963 total included $2.8 billion under the State programs, $99.5 million under the railroad program, $91.8 million under the UCX program, and $60 million under the UCFE program.

The average weekly benefit check for totally unemployed workers came to $35.27 in 1963—71 cents more than in 1962. California's average benefit payment of $42.57 was the highest among all States. Average benefit checks exceeded $40 in Wyoming, Colorado, Ohio, and Wisconsin, and were less than $25 in Arkansas, Maine, Mississippi, North Carolina, Puerto Rico, Tennessee, and West Virginia.

About 8 percent of all unemployment benefit checks under State programs during 1963 were for partial unemployment—the same proportion as in 1962. The average partial unemployment check was $21.32—83 cents more than in 1962.

Characteristics of the Insured Unemployed

Latest available information indicates that male claimants accounted for more than four-fifths of the November–December increase in insured unemployment. Their numbers expanded over the month by 250,000 (28 percent), while unemployment of female workers rose by 49,000 (8 percent). The overall increase in insured unemployment between November and December (299,000, or 20 percent, to 1,788,000) was principally among persons with unskilled (114,000), semiskilled (100,000), and skilled (73,000) occupations.

Selected Characteristics of Claimants
(As a percent of total under State programs)

Characteristic	December 1963	November 1963	December 1962
Under age 45	60	59	61
Semiskilled and unskilled	57	54	57
Manfacturing	46	48	46
Trade and services	24	29	22
Construction	19	14	21
Men	63	59	67

NOTE.—A separate monthly report, UNEMPLOYMENT INSURANCE STATISTICS, provides detailed data that were published formerly in *The Labor Market and Employment Security*, the *Statistical Supplement to The Labor Market and Employment Security*, and *The Insured Unemployed*. These three publications were discontinued with their December 1963 issues.

Copies of UNEMPLOYMENT INSURANCE STATISTICS are available upon request to Unemployment Insurance Service, Bureau of Employment Security, U.S. Department of Labor, Washington, D.C., 20210

Selected Unemployment Insurance Statistics, State Programs, November 1963

State	Initial claims received 1/	Weeks claimed	Number of insured unemployed (weekly average) 2/	Number of beneficiaries (weekly average)	Average weekly payments for total unemployment	Number of final payments 3/	Benefits paid 4/	12 months ending November 30: (in thousands) Benefits paid 5/	12 months ending November 30: (in thousands) Collections and interest	Funds available November 30, 1963 6/ (in thousands)
Total, 52 States ...	1,199,707	5,825,727	7/ 1,541,934	1,126,860	$35.37	94,279	$164,976,540	$2,756,452	$3,206,122	$6,814,218
Alabama	12,662	85,030	20,906	15,874	26.45	1,659	1,738,356	24,332	39,313	67,486
Alaska	3,073	12,110	3,587	2,584	37.40	214	399,461	6,120	7,788	9/ 8,636
Arizona	7,346	34,349	8,635	5,993	31.87	490	790,807	12,240	14,696	56,081
Arkansas	10,665	46,700	12,470	7,696	25.52	658	785,367	12,677	12,858	30,303
California	169,848	845,409	211,370	172,036	42.89	13,644	34,455,286	8/ 480,134	509,795	677,024
Colorado	6,929	26,260	6,700	4,724	41.04	520	789,891	21,673	16,897	80,577
Connecticut	15,733	89,943	22,007	18,243	36.94	1,638	2,766,110	46,246	55,082	172,591
Delaware	2,751	11,758	2,915	2,837	37.31	248	426,485	6,747	10,659	16,814
Dist. of Col.	3,271	19,133	4,706	4,250	37.59	285	667,953	10,616	9,638	64,053
Florida	15,941	93,003	23,612	13,550	27.33	2,001	1,515,261	29,928	45,937	135,991
Georgia	11,520	68,485	18,365	12,300	27.90	1,803	1,356,754	22,709	35,272	156,535
Hawaii	3,625	30,755	7,434	6,208	38.59	285	972,932	10,640	7,815	15,608
Idaho	5,493	18,041	5,185	2,546	36.70	166	370,505	8/ 8,936	9,194	27,702
Illinois	48,110	249,728	64,910	50,686	37.73	5,368	7,763,170	8/ 114,733	181,962	432,138
Indiana	27,649	84,262	24,042	17,888	30.99	1,945	2,229,792	38,468	47,997	151,024
Iowa	5,570	24,293	6,462	3,653	29.46	356	426,377	11,314	13,691	107,650
Kansas	6,538	31,154	8,152	6,161	35.98	588	906,045	16,760	15,172	62,185
Kentucky	12,266	65,173	16,560	9,384	31.77	1,064	1,189,499	24,877	30,962	107,192
Louisiana	12,265	62,446	16,580	11,736	30.31	1,176	1,444,031	30,840	34,273	103,618
Maine	6,588	39,943	10,150	7,370	23.21	329	683,650	10,538	12,481	27,453
Maryland	18,185	85,670	19,654	17,026	31.83	1,159	2,193,348	39,711	46,567	122,542
Massachusetts	61,828	295,679	77,208	62,579	37.54	5,538	9,056,743	134,975	129,714	200,828
Michigan	34,763	142,592	38,824	26,974	34.92	2,801	3,859,936	92,538	88,132	9/ 309,611
Minnesota	16,718	71,354	21,182	15,038	29.95	1,478	1,861,551	38,501	30,732	32,683
Mississippi	8,640	41,711	10,620	7,338	24.89	594	748,893	12,310	19,083	40,861
Missouri	26,684	111,810	28,265	17,980	32.47	1,429	2,235,303	41,280	49,187	208,449
Montana	3,544	11,433	3,690	2,470	30.61	238	318,654	6,822	5,991	21,829
Nebraska	4,356	15,408	3,818	2,877	30.03	281	354,282	9,241	10,059	40,877
Nevada	4,521	16,591	4,243	3,611	38.86	269	577,648	7,157	12,503	26,428
New Hampshire	4,370	23,440	5,977	4,588	30.45	328	545,204	8,010	7,838	24,929
New Jersey	51,322	283,419	76,105	53,177	39.13	5,104	10,009,663	159,870	143,422	312,526
New Mexico	5,278	22,213	4,920	4,150	29.84	283	506,723	8,604	7,427	35,766
New York	199,485	872,754	228,909	171,500	38.74	11,809	26,137,372	444,546	536,689	1,181,418
North Carolina	27,835	108,363	30,044	21,898	23.75	1,609	2,096,649	37,795	48,696	202,056
North Dakota	2,609	6,030	2,529	1,057	32.58	88	142,255	4,247	5,427	8,103
Ohio	54,760	287,369	72,264	50,061	38.95	3,243	8,017,446	156,620	154,801	136,880
Oklahoma	9,437	55,959	14,050	10,485	26.47	1,023	1,143,415	17,882	21,979	40,913
Oregon	18,468	63,216	16,508	9,755	35.13	718	1,397,033	24,613	40,995	73,521
Pennsylvania	99,664	542,309	139,456	101,002	32.60	7,068	12,986,932	236,913	269,274	9/ 1,173,418
Puerto Rico	8,274	69,659	7/ 54,390	13,056	12.84	2,171	707,178	11,997	17,703	47,893
Rhode Island	8,808	39,944	10,000	8,336	31.60	708	1,065,793	17,534	21,064	42,249
South Carolina	8,091	50,186	13,096	9,855	27.50	1,199	1,121,880	15,302	19,866	81,109
South Dakota	1,862	5,612	1,532	960	30.65	130	118,574	3,693	3,197	15,706
Tennessee	16,676	89,226	22,686	16,291	25.88	2,220	1,718,527	31,416	36,023	75,490
Texas	32,421	181,166	47,435	33,363	29.81	4,297	4,091,908	66,789	57,293	234,084
Utah	4,642	20,476	5,436	3,694	35.35	282	537,392	10,505	12,103	40,523
Vermont	3,000	15,607	4,054	3,119	31.09	341	382,777	8/ 5,901	4,078	8,425
Virginia	9,598	34,854	8,981	5,874	27.87	627	668,188	14,257	30,663	123,213
Washington	33,833	187,212	47,675	37,343	32.54	446	5,048,395	55,633	59,565	207,223
West Virginia	9,377	53,977	13,940	8,790	23.80	721	858,129	17,435	30,050	58,964
Wisconsin	21,228	77,878	24,444	15,990	40.65	10/ 1,548	2,659,616	47,439	47,281	199,921
Wyoming	1,586	4,627	1,256	905	37.40	92	131,461	6,388	5,240	5,120

1/ Excludes transitional claims.
2/ Weekly data are adjusted for split weeks in the month on the basis of a 5-day work week.
3/ A final payment is the payment for the last week of compensable unemployment in a benefit year, and indicates the exhaustion of benefit rights by a claimant for that benefit year. Because of the time lapse between the actual week in which the unemployment occurs and the date on which final payment is made the monthly total includes some claimants who exhausted their rights in the preceding month but received their final payment in the reported month, and excludes some claimants who exhausted their rights in the reported month but will not receive their final payments until the succeeding month. Workers who exhaust their rights may be entitled to additional benefits when the following benefit year begins. The number of exhaustions is not indicative of the number who are still unemployed as some will have obtained employment and others may have withdrawn from the labor force.
4/ Unadjusted for voided benefit checks and transfers under interstate combined-wage plan. Includes $3,990,436 in payments under extended duration provisions of State laws in two States: California, $3,986,072; and Puerto Rico $4,364.
5/ Adjusted for voided benefit checks and transfers under interstate combined-wage plan.
6/ Includes amount credited to States' accounts in the unemployment trust fund, less withdrawals by the States, under the provisions of the Employment Security Administrative Financing Act of 1954.
7/ Includes data under the program for Puerto Rican sugar cane workers.
8/ Includes payments made under State temporary extended benefit provisions.
9/ Funds available reflect an advance from Federal account in Unemployment Insurance Trust Fund to: Alaska, $2,630,000 in January 1957, $2,635,000 in February 1958, $3,000,000 in July 1958, and $500,000 in January 1960; Michigan $113,000,000 in September 1958; Pennsylvania $96,440,000 in April 1959, $1,504,000 in May 1960, $4,056,000 in July 1960, $7,400,000 in March 1961, $1,800,000 in May 1961, and $800,000 in August 1961.
10/ Represents data on a "per employer" basis and is not strictly comparable.

Selected Unemployment Insurance Statistics, State Programs, December 1963

State	Initial claims received 1/2/	Weeks claimed 2/	Number of insured unemployed (weekly average) 3/	Number of beneficiaries (weekly average)	Average weekly payments for total unemployment	Number of final payments 4/	Benefits paid 5/	12 months ending December 31: (in thousands) Benefits paid 6/	12 months ending December 31: (in thousands) Collections and interest	Funds available December 31, 1963 7/ (in thousands)
Total, 52 States ..	1,864,558	8,177,256	8/1,972,328	1,523,839	$35.78	1,185,628	$2,329,543,38	$2,774,669	$3,213,628	$6,648,012
Alabama	15,792	100,592	21,301	17,038	26.20	1,900	1,932,977	23,986	39,459	66,245
Alaska	2,878	19,061	4,571	4,091	38.03	296	675,492	6,212	7,795	10/ 8,021
Arizona	8,658	44,301	9,886	7,367	32.07	583	1,026,707	12,263	14,744	55,661
Arkansas	14,725	73,603	17,318	9,659	25.75	763	1,042,069	12,648	12,868	29,569
California	173,952	1,073,648	236,997	214,161	42.96	15,944	12,393,938	9/ 489,644	510,434	641,473
Colorado	10,019	38,774	8,913	6,432	41.71	638	1,141,358	20,798	16,740	49,917
Connecticut	32,287	120,577	29,945	23,652	37.98	1,993	3,865,395	46,545	55,216	170,204
Delaware	4,418	17,579	4,242	4,235	38.36	388	687,957	6,907	10,710	16,289
Dist. of Col.	5,500	25,358	5,952	5,300	38.04	370	881,129	10,805	9,692	63,796
Florida	22,063	113,769	24,189	15,285	27.55	2,295	1,805,675	29,542	46,117	135,492
Georgia	19,362	100,865	23,222	15,101	28.28	2,157	1,721,057	22,561	35,461	156,194
Hawaii	2,735	30,102	6,491	5,946	39.70	286	979,288	10,414	7,814	15,127
Idaho	7,305	34,535	8,284	5,297	38.65	227	859,701	9,898	9,208	27,094
Illinois	91,781	376,037	87,526	66,753	38.61	6,921	11,027,924	9/ 145,942	182,457	424,950
Indiana	41,215	128,763	31,177	24,871	31.83	3,224	3,344,242	38,810	47,674	149,473
Iowa	12,038	43,517	10,882	7,296	30.63	776	934,827	11,372	13,989	107,912
Kansas	13,076	52,906	12,634	9,404	37.16	779	1,496,151	17,029	15,162	61,232
Kentucky	21,319	97,984	21,860	13,192	33.09	1,103	1,816,150	24,845	31,133	106,821
Louisiana	15,046	85,200	20,476	14,924	30.56	1,672	1,946,118	30,477	34,338	102,586
Maine	8,338	51,472	11,750	9,811	23.57	724	968,611	10,712	12,510	26,740
Maryland	28,628	94,127	27,121	22,133	32.26	1,353	3,039,682	38,977	67,354	121,374
Massachusetts	106,550	427,413	99,626	82,964	38.39	6,524	12,703,083	137,066	130,100	190,655
Michigan	56,232	213,043	56,222	38,529	35.92	3,901	5,957,363	91,335	189,166	10/ 304,965
Minnesota	28,070	136,660	35,753	28,624	30.74	2,545	3,813,009	38,867	30,889	29,513
Mississippi	13,540	62,487	15,147	9,765	25.79	933	1,045,700	12,286	19,170	40,228
Missouri	45,300	160,780	39,950	25,738	33.52	1,981	3,531,188	41,858	49,425	206,895
Montana	6,412	22,416	6,675	4,575	31.47	443	635,135	6,933	5,998	21,412
Nebraska	8,470	23,931	7,351	5,249	31.85	490	716,856	9,854	10,091	40,533
Nevada	5,591	24,024	5,442	4,993	39.13	297	842,370	7,489	12,546	25,837
New Hampshire	7,855	32,623	7,562	5,570	30.49	292	687,138	8,154	7,841	24,465
New Jersey	105,123	425,201	99,164	81,929	39.15	7,466	15,275,136	161,947	143,882	300,846
New Mexico	4,971	24,015	6,303	4,931	29.71	306	630,757	8,330	7,417	35,483
New York	327,092	1,209,752	295,090	239,089	38.69	13,596	38,014,000	451,608	537,718	1,154,714
North Carolina	36,855	145,672	43,481	29,586	22.89	1,714	2,833,527	37,773	48,866	201,108
North Dakota	4,535	18,807	5,501	3,827	34.65	250	577,870	4,580	5,465	7,657
Ohio	92,671	405,669	98,094	70,046	39.75	4,021	12,026,120	153,039	154,917	126,360
Oklahoma	13,333	74,448	17,373	9,736	26.62	889	1,115,429	17,580	22,049	40,224
Oregon	22,850	92,075	21,063	15,145	35.75	997	2,323,050	24,745	41,145	71,967
Pennsylvania	199,426	792,124	182,765	144,085	32.71	8,327	19,424,777	236,543	269,078	10/ 156,560
Puerto Rico	11,260	81,286	8/ 40,457	11,460	14.09	2,190	716,367	11,755	17,830	46,807
Rhode Island	19,892	57,506	14,111	11,248	31.88	908	1,509,128	17,500	21,116	41,165
South Carolina	10,976	66,243	16,165	12,231	27.40	1,658	1,447,929	15,593	19,945	80,401
South Dakota	3,503	14,244	3,351	1,703	31.29	181	227,664	3,692	3,211	15,635
Tennessee	24,804	124,403	32,430	20,323	26.09	1,922	2,257,761	30,916	38,116	73,943
Texas	36,168	229,331	54,613	45,626	29.93	6,186	5,895,245	66,610	57,216	230,481
Utah	7,444	34,609	8,211	5,165	36.66	411	814,350	10,623	12,133	39,964
Vermont	4,674	21,417	5,230	3,905	31.97	283	526,663	9/ 6,044	4,071	7,984
Virginia	18,186	53,762	13,033	8,725	27.63	1,045	1,022,914	14,337	30,948	123,390
Washington	42,924	241,168	54,980	48,264	32.92	1,479	6,912,155	57,318	59,601	202,154
West Virginia	13,109	78,528	19,255	13,046	23.94	924	1,331,917	17,109	30,186	58,165
Wisconsin	32,729	150,448	36,043	24,349	41.16	11/ 2,877	4,314,491	47,586	47,365	197,381
Wyoming	2,876	10,392	2,352	1,465	38.77	134	238,604	6,020	5,245	4,951

1/ Excludes transitional claims.

2/ Total includes claims taken as agent State by Virgin Islands.

3/ Weekly data are adjusted for split weeks in the month on the basis of a 5-day work week.

4/ A final payment is the payment for the last week of compensable unemployment in a benefit year, and indicates the exhaustion of benefit rights by a claimant for that benefit year. Because of the time lapse between the actual week in which the unemployment occurs and the date on which final payment is made the monthly total includes some claimants who exhausted their rights in the preceding month but received their final payment in the reported month, and excludes some claimants who exhausted their rights in the reported month but will not receive their final payments until the succeeding month. Workers who exhaust their rights may be entitled to additional benefits when the following benefit year begins. The number of exhaustions is not indicative of the number who are still unemployed as some will have obtained employment and others may have withdrawn from the labor force.

5/ Unadjusted for voided benefit checks and transfers under interstate combined-wage plan. Includes $2,423,311 in payments under extended duration provisions of State laws in two States: California, $2,410,321 ; and Puerto Rico $12,990

6/ Adjusted for voided benefit checks and transfers under interstate combined-wage plan.

7/ Includes amount credited to States' accounts in the unemployment trust fund, less withdrawals by the States, under the provisions of the Employment Security Administrative Financing Act of 1954.

8/ Includes data under the program for Puerto Rican sugar cane workers.

9/ Includes payments made under State temporary extended benefit provisions.

10/ Funds available reflect an advance from Federal account in Unemployment Insurance Trust Fund to: Alaska, $2,630,000 in January 1957, $2,635,000 in February 1958, $3,000,000 in July 1958, and $500,000 in January 1960; Michigan $113,000,000 in September 1958; Pennsylvania $96,440,000 in April 1959, $1,504,000 in May 1960, $4,056,000 in July 1960, $7,400,000 in March 1961, $1,800,000 in May 1961, and $800,000 in August 1961.

11/ Represents data on a "per employer" basis and is not strictly comparable.

Income-Maintenance Program Operations

All Programs

	1963		1962	
	October	September	October	September
Total Public Income-Maintenance Payments (millions)	$2,820	$2,784	$2,718	$2,608
Old-age, survivors, and disability insurance	1,302	1,298	1,247	1,218
Railroad and government employment retirement	188	187	173	171
Unemployment insurance, temporary disability insurance, workmen's compensation, training benefits (ARA and MDTA)	1/600	1/580	1/571	1/543
Veterans' compensation and pension programs	331	328	348	310
Public assistance	399	391	378	365
Old-Age, Survivors, and Disability Insurance				
Total beneficiaries (thousands)	18,957	18,873	17,920	17,758
Retired workers	10,222	10,186	9,677	9,598
Survivors and dependents	7,920	7,881	7,522	7,452
Disabled workers	815	807	720	709
Total monthly benefits (millions)	$1,253	$1,247	$1,172	$1,161
Retired workers	785	782	737	731
Survivors and dependents	394	392	370	367
Disabled workers	74	73	65	64
Public Assistance				
Total recipients (thousands)	7,605	7,563	7,393	7,264
Federally aided programs	6,841	6,809	6,603	6,487
Aid to families with dependent children	2,940	2,931	2,809	2,810
Total recipients	3,914	3,903	3,732	3,633
Old-age assistance	2,196	2,192	2,229	2,226
Other federally aided programs	731	714	642	628
General assistance: Cases	326	322	326	320
Persons	764	754	790	777
Total payments (millions)	$399	$391	$378	$365
Federally aided programs	369	362	348	336
General assistance	22	21	22	21

Operations Under Area Redevelopment and Manpower Development and Training Acts

	Total		ARA		MDTA	
	November	October	November	October	November	October
Total trainees	18,658	20,131	1,725	1,543	16,933	18,588
Youths	2,122	2,047	NA	NA	2,122	2,047
Total net benefits	$2,361,057	$2,580,920	$116,860	$139,440	$2,244,197	$2,441,480
Training allowances	1,881,305	2,090,348	116,860	139,440	1,764,445	1,950,908
Youth allowances	145,165	113,960	NA	NA	145,165	113,960
Subsistence allowances	267,287	292,967	NA	NA	267,287	292,967
Transportation allowances	67,300	83,645	NA	NA	67,300	83,645

Temporary Disability Insurance Activities Under State and Railroad Programs

	1963						1962	
	First claims received		Weeks compensated		Benefits paid		Benefits paid	
	November	October	November	October	November	October	November	October
California								
State plan								
Basic benefits	42,631	49,820	254,214	291,751	$13,138,908	$15,058,021	$10,778,137	$11,669,618
Additional hospital benefits	2/25,579	2/30,880	3/187,945	3/223,588	2,255,340	2,683,056	1,971,264	2,099,304
Private plan	2,596	3,575	(4/)	(4/)	(4/)	(4/)	(4/)	(4/)
New Jersey								
State plan	6,543	8,791	39,462	52,537	1,462,597	1,975,755	1,715,946	1,938,108
Private plan	(4/)	(4/)	(4/)	(4/)	(4/)	(4/)	(4/)	(4/)
New York	(4/)	(4/)	(4/)	(4/)	(4/)	(4/)	(4/)	(4/)
Rhode Island	2,266	2,737	23,025	26,931	767,512	893,487	750,584	810,593
Railroad								
Sickness	9,430	10,611	5/117,232	6/139,992	4,141,196	5,103,554	4,800,046	5,135,779
Maternity	152	159	5/2,300	6/2,950	159,517	204,079	186,092	220,493

1/ Data for temporary disability insurance and workmen's compensation include estimated payments made by private insurers and self-insurers in accordance with law.
2/ Represents the number of payments made.
3/ Days for which additional hospital benefits were paid.
4/ Data not available.
5/ Estimated from data "benefit periods" compensated which number 58,616 for sickness and 1,150 for maternity.
6/ Estimated from data "benefit periods" compensated which number 69,996 for sickness and 1,475 for maternity.
NA--Not applicable.

The President's Economic Report to Congress

President Johnson, in his Economic Report to the Congress, transmitted on January 20, assessed progress during recent years toward our economic goals, reviewed current and foreseeable trends in the economy in relation to its potential, and set forth policies and programs for achieving our national economic potential.

Following are portions of the report which are of interest to those concerned with the employment security program.

THE $100 BILLION EXPANSION

Economic Milestones

Our record $100 billion expansion since early 1961 has carried us past important milestones in the march toward a better life. In 1963, for the first time in history:

—GNP passed the $600 billion mark, by year-end.

—Average earnings in manufacturing exceeded $100 a week, by year-end.

—Personal income (before taxes) reached an average rate of some $2,500 per capita, by year-end.

—After-tax income of individuals exceeded $400 billion, for the year.

—Corporate profits exceeded $50 billion before taxes and $25 billion after taxes, for the year.

—Residential construction passed $25 billion, for the year.

—Civilian employment exceeded 70 million, during the year.

Extent of the Advance

These striking statistics tell us where we are. But they do not tell us how far and how fast we have come. In the nearly three years of unbroken expansion since early 1961:

—GNP is up 16 percent, measured in constant dollars.

—Industrial production is up 23 percent.

—Civilian nonfarm jobs are up 2¾ million.

—Personal income is up $70 billion, or 17 percent.

—Corporate profits before taxes are up $17 billion, or 44 percent.

—Net income per farm for 1963 is up almost $375, or 12 percent.

—Total after-tax income of the American people is up $56 billion, or 16 percent.

—Real disposable income per family is up more than $600, or 8 percent.

Contributions of Business, Labor, and Government

An expansion as long, strong, and free of excesses as the one we are now experiencing does not "just happen."

—Business has generally held prices in check, kept inventories on an even keel, and avoided excesses in capital financing.

—Labor has been constructive in its collective bargaining and in its contributions to rising productivity. Average wage rate increases over the period 1961–63 have been the most modest since World War II, thereby helping to stabilize unit labor costs and improve our ability to compete with Europe and Japan.

—Government has steadily pursued fiscal and monetary policies designed to promote recovery, accelerate expansion, and encourage business and consumer confidence.

THE JOB AHEAD OF US

Our 1961–63 advance—though impressive, sustained, and noninflationary—has not gone far enough and fast enough

—to create the jobs needed by our unemployed,

—to get our factories humming to desired capacity,

—to lift our GNP to its reasonable potential,

—to restore the growth rate of our productive potential to the pace we took for granted in the early postwar period,

—to raise the incomes of farm families to a level more comparable to those of non-farm families,

—to expand investment and profits to levels that will hold more of our capital funds at home and thereby shrink our external payments deficit.

The size of the job that lies ahead of us is measured by—

1. *Unemployment*—5½ percent of our labor force is still idle, even after a year-to-year advance of $30 billion in our GNP. Taking into account the added workers who seek employment as jobs become more plentiful, we would need at least two million more jobs today just to get rid of stubborn excess unemployment.
2. *Productivity advance*—we need about two million new jobs each year to offset the labor-saving effects of rising output per worker.
3. *Labor force growth*—more than a million added jobseekers enter the labor market each year—indeed we will soon need 75 million jobs.
4. *Unused capacity*—operating rates in manufacturing still average only 87 percent of capacity, against the 92-percent rate preferred by business managers.
5. *Wasting potential*—men, machines, and materials that lie idle today could readily add about $30 billion more to our $600 billion GNP.
6. *The balance-of-payments deficit*—although sharply reduced by the determined steps announced in July, the deficit is still with us. And gold outflows—though only half as large in 1963 as in 1962, and less than half as large in the three years 1961–63 as in 1958–60—have not been eliminated.

TAX REDUCTION

The * * * tax cut will challenge American businessmen, investors, and consumers to work in the private economy to expand output, investment, and jobs. I am confident that our private decision makers will rise to this challenge. I am confident of their growing agreement

—that "new records" in output and employment are not enough;

—that four million unemployed and 13 percent idle factory capacity are intolerable;

—that the acid test of economic policy is whether we can make full use of our growing labor force and our rising productivity—our full potential.

POLICIES FOR 1964

Labor and Manpower Policies

No matter how mechanized it becomes, our economy is still an organization of people—working with tools. In 1964 we must redouble our efforts to meet these problems of our working people:

Automation. Technological change is a prime mover of our economic growth—but it can lead to painful job displacement. A special high-level commission should be established to determine how we can best gain the benefits of automation while minimizing its human costs.

More efficient labor markets. Displaced workers must be retrained and helped by improved Federal-State placement and counseling services to find their way back to full productive lives. And we must strengthen our education and training facilities at every level to give our youth the background and skills demanded by our rapidly developing economy. The Youth Employment Act remains high on our agenda.

Unemployment insurance. The burden of displacement on the individual must be eased by extending the coverage and increasing the benefits of our unemployment insurance programs.

The Fair Labor Standards Act. Coverage should be extended to over 2½ million workers who lack overtime coverage or are not protected at all—among them, 650,000 hotel, motel, restaurant, laundry, drycleaning, and farm-processing workers.

Working hours. We should and will solve our present unemployment problem by expanding demand, not by forcing the standard work week down to 35 hours. This would only redistribute work, not expand it.

AMERICA'S ECONOMIC CHALLENGE

In 1964 and beyond we seek a free and growing economy which

—offers productive employment to all who are willing and able to work;

—operates at the full potential of our human and material resources;

—encourages free enterprise, innovation, and competition by citizens in all walks of life;

—avoids setbacks from recession or inflation;

—generates steady and rapid growth in productivity—the ultimate source of higher living standards—while providing the new skills and jobs needed for displaced workers;

—meets ever more fully the needs and preferences of our citizens, as freely expressed in the market place and in the halls of governments;

—provides increasing leisure, and satisfying ways to use the time, to those who wish it;

—safeguards the security of the Nation and the free world by assisting efficiently the economic development and political independence of the less developed countries;

—promotes mutually advantageous trade with other countries, and progressively reduces barriers to international competition;

—earns enough in free international transactions to balance our external payments and yet meet our world responsibilities;

—distributes fairly the fruits of economic growth among consumers and producers, workers and employers;

—moves steadily toward the American dream of equality of opportunity for all citizens—regardless of race, religion, sex, or residence, regardless of social and economic status at birth;

—permits every American to produce and to earn to the full measure of his basic capacities;

—eliminates, with the compassion and foresight of which a free and abundant economy is capable, avoidable suffering and insecurity from the lives of our citizens.

These aspirations are not easy to fulfill—but neither are they beyond our powers.

The policies—public and private—we must pursue are not waiting to be discovered. They are at hand and we must use them.

Our main reliance is on private ingenuity, initiative, and industry. But it is the obligation of government to support the vibrant, steady growth of the economy; to expand the opportunities of free enterprise; to guard against its excesses; and to serve the economic interests of all the people.

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Reports Available in the Series on

Temporary Extended Unemployment Compensation

The following publications, each bearing the general title *Family Characteristics of the Long-Term Unemployed, a report on a study of claimants under the Temporary Extended Unemployment Compensation Program, 1961–62,* with the subtitles indicated below, are available from the U.S. Department of Labor, Bureau of Employment Security, Washington, D.C., 20210:

TEUC Report Series No. 1, January 1962, preliminary report on the May 1961 survey (BES No. U–207–1). National analysis of results of a survey of family characteristics and prior work history of TEUC claimants based on personal interviews conducted in May 1961 in every State, the District of Columbia, and Puerto Rico.

TEUC Report Series No. 2, April 1962, interim report on the May 1961 survey (BES No. U–207–2). National and State analysis of results of family characteristics and prior work history of TEUC claimants based on personal interviews conducted in May 1961. National and State data.

TEUC Report Series No. 3, September 1962, report on May and September 1961 surveys (BES No. U–207–3). National analysis of results of surveys conducted in May and September 1961 based on personal interviews of TEUC claimants in these two periods. National and State data.

TEUC Report Series No. 4, January 1963, combined report on surveys conducted in May and September 1961, January and April 1962 (BES No. U–207–4). National analysis of the results of four surveys conducted during the TEUC program. National and State data.

TEUC Report Series No. 5, March 1963, combined report on surveys conducted in May and September 1961 and January 1962 (BES No. U–207–5). National and State data showing the results of the first three surveys of TEUC claimants.

TEUC Report Series No. 6, June 1963, a report on May 1961 survey claimants who exhausted their TEUC benefit entitlement by August 31, 1961 (BES No. U–207–6). National analysis of family, personal, and economic characteristics and prior work history of claimants interviewed in the May 1961 survey who exhausted their entitlement to TEUC benefits by August 31, 1961, compared with claimants who did not exhaust their entitlement.

TEUC Report Series No. 7, December 1963, combined report on claimants who exhausted their TEUC benefit entitlement, May and September 1961 and January and April 1962 surveys (BES No. U–207–7). National analysis of family, personal, and economic characteristics and prior work history of claimants interviewed in any of the four surveys who exhausted their entitlement by the end of the TEUC program, compared with claimants who did not exhaust their entitlement. National and State data.

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